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# Canfor Corporation Annual Report **2000**

It was a year of doubling our pulp production as market prices soared. A year of expanding our lumber capacity to grow with our home centre customers. A year of increasing our commitment to produce high performance paper for niche market customers. A year of broadening our pledge towards responsible forest stewardship and doubling our certified forestlands. **A year of incredible change, transition, evolution...**


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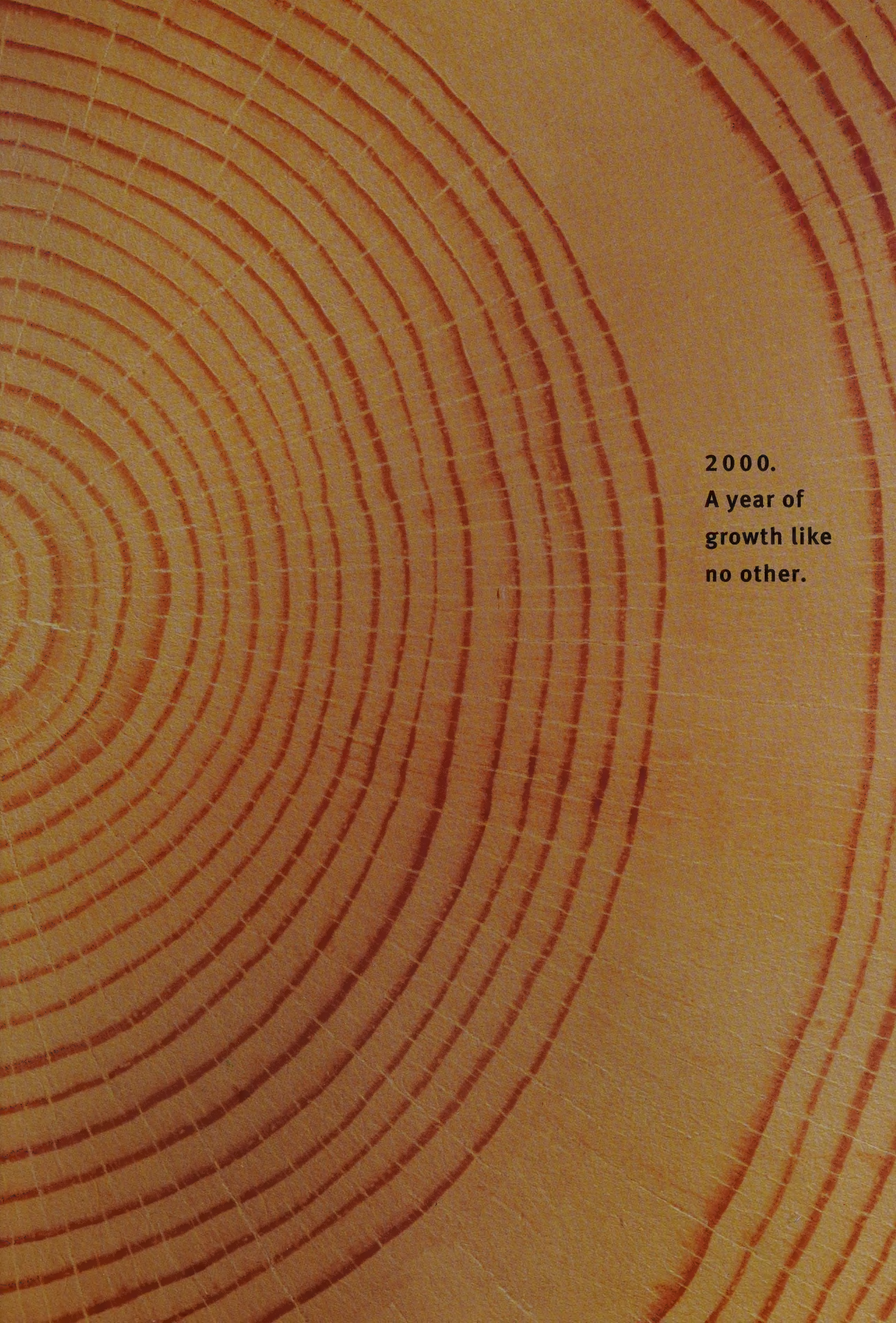

2000.
A year of
growth like
no other.

| | | 2000 | 1999[2][4] |
|---|---|---|---|
| **Sales and income** (millions of dollars) | Net sales | $ 2,265.9 | $ 1,741.2 |
| | Net income before non-recurring items [1] | 125.6 | 106.9 |
| | Net income | 125.6 | 102.6 |
| **Cash flow** (millions of dollars) | Cash flow from operations | $ 100.8 | $ 210.9 |
| **Per common share** (dollars) | Net income before non-recurring items [1] | $ 1.50 | $ 1.75 |
| | Net income | 1.50 | 1.68 |
| | Net income – diluted [5] | 1.36 | 1.66 |
| | Cash flow from operations | 1.24 | 3.47 |
| | Common shareholders' equity | 10.24 | 9.72 |
| **Financial position** (millions of dollars) | Working capital | $ 71.1 | $ (15.2) |
| | Total assets | 2,440.5 | 2,347.6 |
| | Long-term liabilities | 465.7 | 491.7 |
| | Common shareholders' equity | 950.7 | 901.8 |
| | Total capitalization | 1,780.3 | 1,532.5 |
| **Additional information** | Return on capital employed | 9.3% | 12.3% |
| | Return on assets | 6.7% | 7.8% |
| | Return on common shareholders' equity | 13.6% | 15.4% |
| | Ratio of current assets to current liabilities | 1.1:1 | 1:1 |
| | Ratio of net debt to common shareholders' equity | 43:57 | 43:57 |
| | EBITDA (millions of dollars) [3] | $ 376.3 | $ 288.1 |
| | EBITDA margin | 16.6% | 16.5% |
| | Capital expenditures (millions of dollars) | $ 121.8 | $ 119.9 |

(1) Non-recurring items refers to discontinued operations.
(2) Includes the results of Northwood Inc. from November 23, 1999.
(3) EBITDA represents operating income plus depreciation, depletion and amortization.
(4) Comparative figures have been restated to conform to the 2000 presentation.
(5) Reflects the adoption of new CICA recommendations for the calculation of dilutive factors. 1999 figure has been restated.

**Net sales by market**

- 54% U.S.
- 20% Canada
- 15% Europe
- 10% Far East
- 1% Other

**Net sales mix by product line**

- 41% Lumber
- 39% Pulp, sack kraft paper and chemicals
- 8% Building materials purchased for resale
- 7% Log sales
- 3% Miscellaneous
- 2% Plywood



1 Englewood
2 Sunshine Coast
3 Howe Sound Pulp and Paper
4 Vancouver
Corporate Office
Panel and Fibre
Canfor Research and Development
Canfor Wood Products Marketing
Canfor Pulp and Paper Marketing
5 Harrison
6 Kyahwood Forest Products J.V.
7 Houston
8 Fort St. James
9 Clear Lake
10 Prince George
B.C. Chemicals
Intercontinental Pulp Mill
J.D. Little Forest Centre
North Central Plywoods
Northwood Pulp Mill
Prince George Pulp and Paper Mill
Prince George Sawmill
PG Wood Treating Plant
Rustad
Executive Office
Administration Centre
11 Upper Fraser
12 Isle Pierre
13 Polar
14 Chetwynd
15 Taylor
16 Fort St. John
17 Hines Creek
18 Grande Prairie


**Corporate Office**
Vancouver, B.C.

**Woodlands**
Prince George Operations
Fort St. James Operations
Houston Woodlands Operations
Alberta-Peace Operations
Coastal Operations

**Lumber Manufacturing Capacity** (Mfbm)
Chetwynd: 180,000
Clear Lake: 135,000
Fort St. James: 232,000
Fort St. John: 174,000
Grande Prairie: 199,000
Hines Creek: 82,000
Houston: 430,000
Isle Pierre: 171,000
Prince George Sawmill: 216,000
Polar: 158,000
Rustad: 237,000
Taylor: 76,000
Upper Fraser: 268,000

**Lumber Remanufacturing Capacity** (Mfbm)
Bellingham, Washington (not shown): 125,000
Clear Lake: 40,000
Grande Prairie: 16,000
Northern Specialties: 11,112[1]
Kyahwood Forest Products J.V.: 66,000
*Total Lumber Capacity = 2,816,112*[2]

**Plywood Capacity**
North Central Plywoods: 167,000 msf (3/8" basis)

**Nurseries/Seed Orchards**
J.D. Little Forest Centre
Grande Prairie
Sunshine Coast
Vernon Seed Orchard[1]

**Wood Fibre Products**
Panel and Fibre

**Pulp and Paper Capacity** (tonnes)
Intercontinental Pulp Mill
Pulp: 297,500
Northwood Pulp Mill
Pulp: 553,000
Prince George Pulp and Paper Mill
Pulp: 160,000
Kraft Paper: 120,000
Howe Sound Pulp and Paper[4]
Pulp: 340,000
Newsprint: 210,000
*Total Pulp Capacity = 1,350,500*[5]

**Chemicals Manufacturing**
B.C. Chemicals

**Wood Products Marketing**
Canfor Wood Products Marketing
Vancouver, B.C. and Toronto, Ont.

**Pulp and Paper Marketing**
Canfor Pulp and Paper Marketing
Vancouver, B.C.
Canfor Georgia-Pacific Japan Corporation
Tokyo, Japan Joint Venture *(not shown)*
Canfor Europe
Brussels, Belgium *(not shown)*

**Research and Development**
Canfor Research and Development Centre

(1) Closed third quarter of 2000 (refers to production)
(2) Includes remanufacturing capacity
(3) Jointly owned with Riverside Forest Products, Weldwood of Canada, and West Fraser Timber
(4) 50% owned by Canfor Corporation
(5) Includes 100 per cent of HSPP pulp production


2000.
A year of
growth like
no other.

Three years ago the Board and management of Canfor defined, approved and set in motion a five-year strategy to grow the company and generate superior returns to shareholders. Since that time our major focus has been on execution, resulting in tremendous growth for us in the year 2000.

At the highest level our strategy builds on the three pillars of refocusing on our core business lines; namely high quality wood products, pulp and specialty kraft papers; taking all business lines to top quartile operational performance, and; achieving what we generally refer to as the critical mass requirement to be a competitive global player in our principal lines of business.

The year 2000 was dominated by the successful integration of Northwood people and assets into Canfor, nearly doubling our pulp and lumber capacity. Of the $150 million in annual synergies estimated to be available, roughly half were realized by the end of the year, with the balance planned for 2001. While conventional wisdom has it that most mergers or major acquisitions fail in execution, we can say this one has been an unqualified success.

We also enhanced Canfor's traditionally strong forest stewardship and environmental performance over the past year with the implementation of forest management principles based on an ecosystem approach. This innovative framework for managing the land base was validated by the successful certification of all of our woodlands under ISO 14001 and the achievement of Canadian Standards Association Certification of our three major area-based tenures, representing some 1.5 million hectares of forest land. We are most gratified at the warm response received from customers and the public to these accomplishments.

Also embodied in our forest management principles is a commitment to work in co-operation with the native community to assist them in realizing social and economic benefits from the resource. This past year, Canfor entered into new business partnerships with native bands, bringing to four the number of aboriginal joint ventures with aboriginal groups. The company also supports a variety of training and other co-operative arrangements to assist the native community with business development.

We at Canfor recognize the imperative of strong environmental and forest management on a planet that seems to get smaller every year. The challenge is to meet ever higher standards in a commercially supportable way. Our approach has been to invest in technology and apply it to management of the land base. In 2000, we organized the Canfor technical specialists and resource management information systems into a separate business unit, which is now a subsidiary company called Genus Resource Management Technologies Inc. Genus is dedicated to increasing the efficiency and effectiveness of land and environmental management in Canfor's core businesses and to offer both technology and services to outside customers. In this way the cost to Canfor is reduced while the scale and innovative capacity of the business unit has expanded dramatically.

The forest industry is unusually dependent on government policies for its success and dynamism. Our forest tenures are almost entirely on Crown land

As a result of the Northwood acquisition, **we almost doubled our pulp and lumber capacities** in 2000 and realized half of the $150 million in identified synergies.

**Peter J.G. Bentley**
Chairman

and we are closely regulated in terms of forest and environmental practices, as well as the commercial terms under which we access timber. At the national level, trade policy is the single most critical area affecting the performance of the business.

Over the past year the management of Canfor has taken an active role in advocating policy reform. We have been strong advocates for North American free trade to replace the anachronistic, inefficient and inequitable trade restrictions built into the Canada – U.S. Softwood Lumber Agreement when it expires on March 31, 2001. We have been forceful advocates as well for policy reform in British Columbia, where stumpage policies seriously distort the competitive playing field and where excessive regulatory overburden weakens our ability to achieve the highest possible forestry and environmental standards.

We are cautiously optimistic that policy change is in the wind on all fronts, although change will undoubtedly be controversial due to the many conflicting positions.

As we approach the 13th year of operation of Howe Sound Pulp and Paper (HSPP), Canfor's pulp and newsprint joint venture with Oji Paper Limited, we are gratified to have now completed a business restructuring. In addition to the significant operational improvements that have contributed to the best financial performance in the history of HSPP, we have reorganized the business structure into a limited partnership. This has enabled the injection of additional capital into HSPP for debt reduction purposes and strengthened its fibre supply arrangements, while giving Canfor the ability to utilize in excess of $600 million in tax losses.

This change reflects well on our excellent partnership with Oji, is a critical element in improving the performance of HSPP, and is a significant step toward improving Canfor's financial performance.

Finally, Canfor was again an industry leader in workplace safety. Our wood products group led the industry while pulp and paper were among the top three in British Columbia. Unions, salaried employees, and management have worked together to ensure that workplace safety remains number one at Canfor.

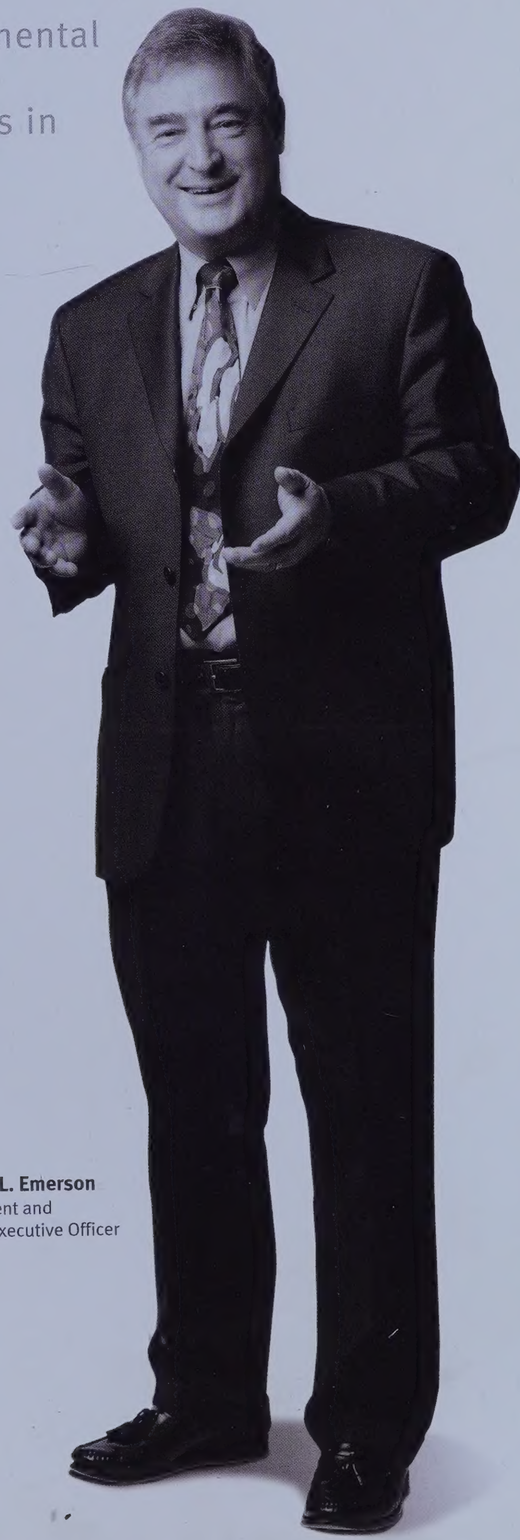
All of these accomplishments represent steps along a strategic path to which we remain committed. Our rate of progress has only been limited by market related production curtailments. None of this progress would have been possible without the hard work, dedication and innovation of Canfor's great team of people.

We thank them on your behalf and we thank our Board of Directors for guiding us through the many challenges as we build a leading global forest products company for the millennium.

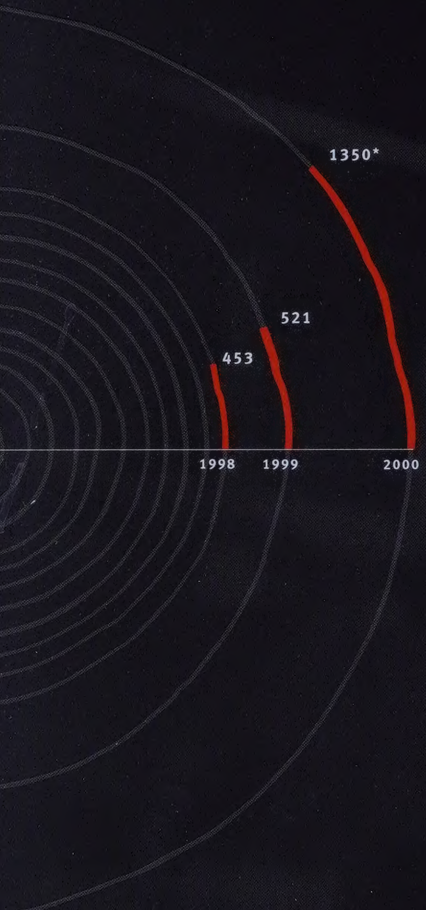
**Peter J.G. Bentley**
*Chairman*

**David L. Emerson**
*President and Chief Executive Officer*

We continue to **focus on strengthening our core businesses, driven off of our superior northern fibre base**, while at the same time fulfilling our commitment to environmental stewardship and to the communities in which we operate.



**David L. Emerson**
President and
Chief Executive Officer




PULP PRODUCTION, 000's tonnes

* includes 100 per cent of HSPP pulp production


2000 was a year we doubled our pulp production.

## Pulp and Paper

Canfor's pulp and paper business had a milestone year in 2000. The company's Intercontinental Pulp Mill, Northwood Pulp Mill, and Prince George Pulp and Paper Mill combined to produce 980,114 tonnes of pulp. Howe Sound Pulp and Paper (HSPP), of which Canfor owns 50 per cent, produced over 331,000 tonnes of pulp and 198,000 tonnes of newsprint. This brought the 2000 combined pulp production total from all pulp operations to over 1.3 million tonnes. In addition to producing market pulp, the Prince George Pulp and Paper Mill also produced 110,000 tonnes of kraft paper.

**Canfor now has the capacity to maintain its supply to existing market pulp customers while having the flexibility to implement the company's focus on high performance paper.**

In 2000, the Pulp group realized the efficiencies of its strategic capital investments made in 1999 and lowered the marketing costs of selling pulp by 30 per cent. The new chip handling system at the Prince George Pulp and Paper and Intercontinental Pulp mills improves Canfor's wood yield, lowers chip costs and allows the company to manage smaller chip inventories.

The co-generation turbine at the Intercontinental Pulp Mill ran full capacity in its first week of operation and currently provides 60 per cent of the mill's power needs at a time when energy costs are on the rise. The rebuild of the drives on the Prince George Pulp and Paper Mill's paper machine has resulted in increased capacity at the mill for the production of high performance kraft paper. HSPP also invested $4.2 million in pulp machine capacity improvements, which provided immediate results.

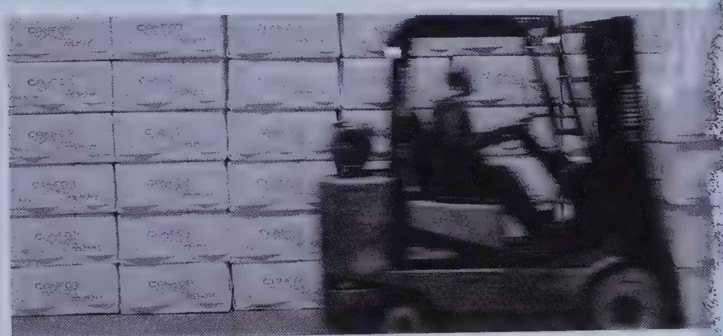
The price of pulp began the year at $640 a tonne U.S. and gathered strength throughout, closing at $710 a tonne U.S. As NORSCAN inventories for pulp supply went from 17 days at the beginning of 2000 to 31 days at the close of the year, Canfor curtailed its pulp production by approximately 27,500 tonnes to manage its own inventories while HSPP took 2,500 tonnes of down time.

The Pulp and Specialty Kraft Paper group also benefited from strong markets in 2000 where the price of high performance bleached paper rose by $50 a tonne U.S. over the year.

The acquisition of Northwood in 1999 doubled Canfor's pulp production capacity to over one million tonnes annually during a strong pulp market. In addition, the synergy savings and opportunities to capture “best practices” are having a direct impact on Canfor’s bottom line.

A year after the Northwood purchase, Canfor's mills are realizing reductions in conversion and fibre costs of approximately five and ten per cent respectively. Mill production is also up as a result of these synergies with every mill showing an improvement in their average tonnes produced per day. Canfor will continue to realize the synergies of the Northwood acquisition well into 2001.

*The Pulp group lowered the marketing costs of selling pulp by 30 per cent in the year 2000.*



With the addition of Northwood's pulp capacity, Canfor was able to review its product mix and focus its attention on higher value products. Canfor now has the capacity to maintain the supply to its existing market pulp customers while having the flexibility to implement the company's plan to focus on high performance specialty paper. This strategic shift calls for Canfor to increase production of its specialty papers in order to fill the market demand for high value niche products. A critical component of this strategy involves working with North American customers to change their purchasing habits towards Canfor's cost-saving high performance paper.


2,700
1,540
1,470
1998
1999
2000
LUMBER CAPACITY,


2000 was a year we increased our lumber capacity to meet the growing demand of our customers.

## Wood Products


North American lumber markets weakened steadily throughout 2000. Prices for the bench mark spruce/pine/fir (SPF) 2"x4" random length began the year at $325 U.S. per a thousand board feet before tailing off by year's end to close at a ten year low of $180 U.S. per thousand board feet. In addition, quota restrictions imposed by the Softwood Lumber Agreement continued to hinder Canfor's exports. The cumulative effect of these market conditions resulted in Canfor taking 380 million board feet of downtime during the year.

Despite the less than favourable market conditions, Canfor made a number of significant improvements during the year. The results of Canfor's $71.6 million in capital expenditures and the synergies from the Northwood acquisition began to show in improved operating performance. Over the year, Canfor's lumber recovery factor (LRF) improved by five per cent and conversion costs were reduced significantly. On average, overall productivity of Canfor's Wood Products Group increased by 33 per cent over the previous year. Additional cost savings and synergies, particularly in harvesting, will continue to be captured in 2001.

In 2000, the Wood Products Group focused on integrating the fibre basket, manufacturing facilities and products acquired late in 1999 with the purchase of Northwood. The acquisition added an additional one billion board feet of lumber production, growing Canfor's annual manufacturing capacity to 2.7 billion board feet. It also provided an excellent opportunity to reassess and realign production and marketing plans.

During this review, emphasis was placed on better matching fibre to facilities to ensure more efficient manufacturing while continuing to respond to customer demands. Part of this review included the realignment of Canfor's square edge program which supplies appearance grade lumber to the growing home centre market. Once fully implemented in 2001, the square edge program will significantly reduce production costs while enabling the company to produce more product from the same fibre base.

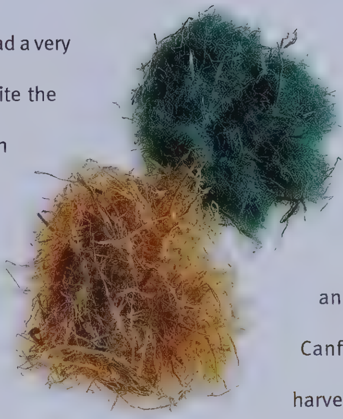
The growth in Canfor's fibre base has provided for additional flexibility in our product mix. With the additional volume, Canfor was able to implement a high value Douglas-fir plywood program for the U.S. market. Canfor also had the ability to focus some of its Douglas-fir lumber into the Japanese and other off-shore markets. Additional opportunities are being reviewed for possible implementation in 2001.

*In 2000 Canfor increased its lumber capacity by one billion board feet while increasing lumber recovery and reducing conversion costs.*


48,000
35,000
23,000
1998
1999
2000
POLAR HIGH PERFORMANCE PAPER PRODUCTION, tonnes

2000 was a year we increased our commitment to produce high performance paper.

## Coastal Operations



Canfor's Coastal Operations had a very successful year in 2000 despite the challenges of operating in an IWA contract year, incurring increased harvesting costs, and the unscheduled curtailments due to fire hazard during the summer.

Early in the year, the industry experienced a protracted industry-wide contract dispute. Canfor committed to settling amicably, using the template of an earlier agreement signed by the company and its interior union. The resulting agreement set the example for the balance of the industry within the province.

The Coastal Logging group began its first full year of mechanically harvesting second growth stands resulting in better fibre recovery and the ability to extract higher value logs for manufacture. Increased costs attributed to mechanical harvesting were more than offset by better productivity and higher average sales prices. Canfor's Coastal Logging operations harvested approximately 1.6 million $m^3$ and posted net sales of over $155 million. The operating income for coastal logging also exceeded budget coming in at $17.6 million.

Canfor's Panel and Fibre operation, which processes urban wood waste to produce a variety of embossed hardboard panels and wood fibre for agriculture and industrial applications, also had a banner year. The operation had net sales of approximately $42 million and an operating income of over $6.3 million, far exceeding budget targets.

Changes in Canfor's focus on fibre supply and marketing on the coast in 2000 resulted in the growth of mechanically harvested second growth stands and the implementation of new initiatives to coordinate production with marketing.

In 2000, mechanical harvesting along with helicopter logging played a much bigger role than in previous years. Helicopter logging accounted for 12 per cent of the total harvest and is expected to represent a permanent portion of the sustainable cut over time. Utilizing helicopter logging allows

*Fibre from Canfor's Panel and Fibre operation can be molded for a variety of uses such as this automobile door panel.*

Canfor to reduce harvesting impacts while targeting higher value logs demanded by our customer. This harvesting change, in conjunction with an enhanced marketing effort, will allow Canfor to provide a more attractive profile of logs to its customers to meet their needs.

The success of Panel and Fibre's efforts to streamline its product line and reduce costs paid dividends in 2000. By focusing on products with a higher return and reducing their manufacturing costs by close to ten per cent, the operation had one of its most profitable years for the operation.

In addition to these harvesting and marketing initiatives, the Coastal Operations also certified its Tree Farm License in Woss, B.C. to the Canadian Standards Association (CSA) Sustainable Forest Management Standard. All of these efforts keep Canfor well in step with customer demands.

**The year 2000 was one of the most profitable for Coastal Operations in recent history.**

*2000 was a year of increased productivity and higher than average sales prices for the Coastal Logging group.*

## Health and Safety

This annual report has talked about the tremendous growth experienced at Canfor as a result of the Northwood acquisition. It goes without saying that as the two companies came together under the Canfor banner, the employees of Canfor experienced the impacts of this growth as well. From an employee perspective, the year 2000 was all about transition and integration. 2000 was about integrating the two organizations - creating a stronger company with new assets, a broader scope and a 20 per cent larger workforce. Drawing from the combined pool of employee resources, a new management team was put in place and tasked with implementing the "best practices" from both legacy organizations.


The speed and success of this major endeavour was a remarkable accomplishment and judged a success by third parties.

With the lion's share of the transition process complete, Canfor is now re-focused on employee wellness and proactive employee relations going forward. The results of a senior management meeting held in the latter part of 2000 are already being seen in a rejuvenated employee communication program, formal personal development planning and the establishment of Employee Committees at Canfor's Corporate Office in Vancouver and its Executive Office in Prince George.

### WORKPLACE SAFETY

Canfor employees kept the commitment that "Safety Comes First at Canfor" despite the difficulties and uncertainties inherent in any transition process. To help re-establish and communicate Canfor's safety standards during the transition process, the company reinstated its annual Union-Management Safety Conference, which included representation from all Canfors operations to create consistent safety standards throughout the operations.

Innovation in the area of safety continued this year. For example, Canfor's Englewood operation designed a new Safety Management System that mirrors the existing ISO 14001 Environment Management System in order to streamline and build consistency within the auditing and reporting process.

A year into the transition process, Canfor is pleased to announce that the company's Medical Aids were reduced by 29 per cent, its Lost-Time Frequency Rates were reduced by 22 per cent, and its Lost-Time Accidents have been reduced by 28 per cent.

The 2000 President's Safety Award for 500,000 man-hours was presented to the employees at Intercontinental Pulp Mill and the award for under 500,000 man-hours went to the employees at the Taylor operation for the second consecutive year. Honourable mentions for impressive safety records and programs went to Northwood Pulp Mill, Harrison, Hines Creek, Polar, Prince George Sawmill and Westcoast Cellufibre, an operation of HSPP. Changes have been made to the award criteria for 2001 to better reflect Canfor's operations mix.

7.5
1
0
1998
1999
2000
ISO CERTIFIED FORESTLANDS,


2000 was a year we doubled our certified forestlands.

Canfor operates under the commitment of continuous improvement in its environmental practices. In a year of tremendous progress on so many fronts, the following accomplishments are worth highlighting.

**Certification**

Canfor is committed to responsible stewardship of the forestlands entrusted to its care. In keeping with this commitment, Canfor acknowledges the importance of the independent recognition of its stewardship practices and therefore, has made it a priority to certify its forestlands to viable and accepted certification standards.

Canfor continued to make significant progress on its certification commitment over the year. Building on the certification of its Environmental Management System (EMS) for all woodlands to the International Organization for Standardization (ISO) 14001 standard in 1999, Canfor was successful in certifying its newly acquired forestlands to the ISO standard by year's end. This accomplishment more than doubled the size of the forestlands under the ISO 14001 standard to 7.5 million hectares and includes all of Canfor's tenures.

35%

**of all CSA certified forestlands in Canada are tenured to Canfor.***

Canfor also certified three of its four area-based tenures to the rigorous Canadian Standards Association's (CSA) Sustainable Forest Management Standard CAN/CSA Z809-96. Certified were Canfor's Forest Management Agreement area near Grande Prairie, Alberta and Tree Farm Licences near Chetwynd and Woss, British Columbia. Canfor chose the CSA standard because of its stringent requirements and extensive public participation. Canfor will certify its remaining area-based tenure, TFL 30 in Prince George, British Columbia, to the CSA standard in mid 2001. The company is also committed to certifying its volume-based tenures to the CSA standard in the near future and continues to monitor other certification standard deliberations.



*Source: Canadian Pulp and Paper Association

### Alternative Uses for Residual Wood

Yet another significant story for Canfor in 2000 was the progress made in finding viable alternative uses for wood residues produced during the manufacturing process at its sawmills. Through investments like the $7 million electricity co-generation project at its Intercontinental Pulp Mill, Canfor is now able to create value from a waste material that would have otherwise been incinerated. An example of the effectiveness of these efforts was witnessed with the shut down of the Rustad operation beehive burner in Prince George several months ahead of schedule.

Canfor's Wood Residue Committee continues to evaluate other options to utilize residual wood in value-added applications and is currently reviewing co-generation projects at its Grande Prairie and Houston mills and other retail opportunities.

### Fort St. John Forest Practices Code Pilot Program

Canfor, along with Slocan, Louisiana-Pacific and the Ministry of Forests (MoF) Small Business Forest Enterprise Program, developed a code pilot regulation to be applied in the Fort St. John region. This pilot code proposal will consolidate all of the required Forest Development Plans in the region down to one submission resulting in operational and planning cost savings.

This proposed results-based code will be reviewed and commented on by a public advisory committee in 2001 and forwarded to the provincial government for approval.

## Performance Versus Objectives in 2000

### Environmental Management System

Objective: We will bring legacy Northwood operations into the company-wide EMS.

Performance: Considerable progress was made towards bringing legacy Northwood operations into the company-wide EMS. Fuel Management Standards were finalized and implementation plans established for forest operations. Standardized environment operating procedures consistent with ISO 14001 requirements were completed and training on environmental aspects and procedures was provided to all Wood Products environmental coordinators.

### Certification

Objective: We will achieve ISO 14001 certification of the Northwood Pulp Mill and legacy Northwood forest operations.

Performance: The Canfor forest operations' certification to the ISO 14001 standard was successfully expanded to include legacy Northwood forest operations. The Northwood Pulp Mill's certification to the ISO 14001 standard is expected by mid 2001.

Objective: We will continue to work towards certification of area-based forest tenures in B.C. and Alberta under the CSA and FSC standards.

Performance: Canfor has successfully completed certification of three of its four area-based tenures to the CSA standard.

Objective: We will take steps to implement our Forestry Principles, which include communicating them to our employees, communities and other interested parties.

Performance: The implementation of our Forestry Principles is underway in each region. Plans have been developed, specific to each region, which take into account such initiatives as certification, and the Forest Practices Code Pilots.

### Audit Program

Objective: We will conduct internal audits of three pulp and paper mills, four sawmills, a wood preserving plant, a specialty products plant, a hardboard panel and wood fibre products plant and all of our forest regions.

Performance: Internal audits were completed for the requisite three pulp and paper mills in addition to Howe Sound Pulp and Paper (HSPP). Canfor was also successful in completing internal audits for the four sawmills, the wood preserving plant, the specialty products plant, the hardboard panel and wood fibre products plant and all of our forest regions.

**Reducing Greenhouse Gas Emissions (GHG)**

Objective: We will integrate the newly acquired Northwood operations into our GHG emission reporting and projections.

Performance: Legacy Northwood operations have been successfully included in our greenhouse gas emission calculations and reporting.

## Compliance Report

Canfor is committed to transparency in its environmental reporting and includes compliance disclosure as part of this process. The following is an inventory of non-compliance for Canfor's manufacturing, including HSPP, and forestry operations.

### MANUFACTURING

In 2000, Canfor and HSPP had the following non-compliance situations (reported in accordance with government non-compliance reporting criteria):

**Effluent**

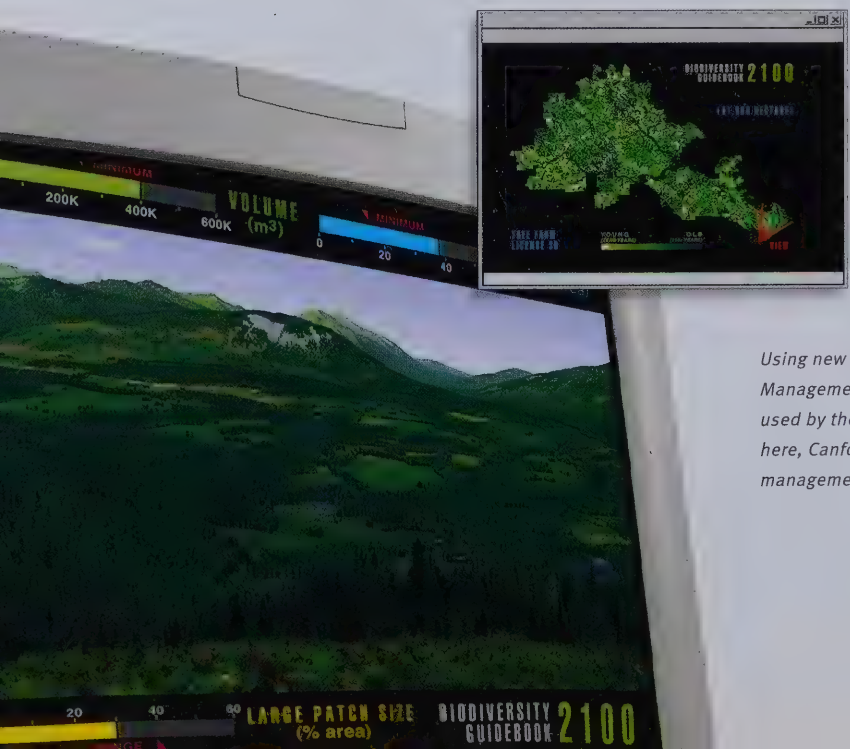
Marginal failure of a monthly average total suspended solids level in a pulp mill effluent.

**Air**

At our sawmill operations, one beehive burner regularly operated below approval temperature due to lack of fuel in the afternoon shift. Changes have been made to increase the burner operating temperature. Four other beehive burners occasionally exceeded opacity limits due to temporary operational problems. At our hardboard panel and wood fibre products plant, fibre was discharged beyond plant boundaries due to a plugged cyclone. Although the problem was quickly detected and corrected, a notice of permit violation was issued. At one of our pulp mills a total reduced sulphur emission limit was exceeded on one day due to difficulty starting a recovery boiler.

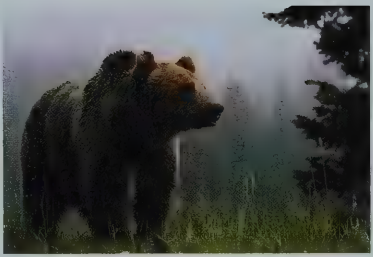
**Spills**

Canfor and HSPP manufacturing operations had seven reportable spills in 2000. Most of these spills were minor in nature and were contained and cleaned up. Spills included: one spill of plant wash water to the ground, one of hydraulic oil, one thermal oil spill, three black liquor spills; one mist from a tank, one tank overflow and one knots bunker overflow.




*Using new technologies like our Genus Resource Management System and modeling technologies used by the MacGregor Model Forest, as shown here, Canfor has significantly lowered its forest management costs.*

*Canfor is actively involved in grizzly bear research and habitat modeling to maintain or enhance the bear's natural environment.*



In one instance, despite an immediate response and construction of berms, an undetermined quantity of pulp mill effluent was spilled into receiving waters while repairing an effluent line.

**Greenhouse Gas Emissions**

For 1999, the most recent reporting year under Canada's Climate Change Voluntary Challenge and Registry Program (VCR), Canfor included Northwood operations in its GHG emission totals. These combined totals show that Canfor's 1999 GHG emissions were 1.3 per cent lower than 1990 levels. We are projecting that with projects either completed or underway that Canfor will successfully meet Canada's Kyoto GHG reduction target of six per cent below 1990 levels before the reporting deadline between 2008 and 2012. Canfor's emission totals do not include HSPP as they now report separately to the VCR.

## FORESTRY

As a result of obtaining certification to the ISO 14001 standard for all of its forestlands and certification to the CSA standard for most of its area-based tenures, Canfor has made a number of improvements to its Environmental Management System (EMS) and Sustainable Forest Management (SFM) plan. The following is an account of incidents recorded in the 2000 calendar year.

**Under the Forest Acts of British Columbia and Alberta**

13 infractions regarding operating out-of-bounds were reported and remedied. Overall, however, Canfor's three-year average of non-compliance incidents in this area has been reduced by twenty-two per cent.

**British Columbia Forest Practices Board Reports**

During the year, the Forest Practices Board, which is an independent public watchdog, released the results of two random audits concerning Canfor's compliance with the Forest Practices Code. One report covered a forest licence within Canfor's Fort St. James operation. The results revealed that Canfor was in general compliance with the Forest Practices Code but noted a deficiency in the company's planning around mountain pine beetle infested stands. The second report reviewed Canfor's TFL 48 in its Chetwynd operation. The report found Canfor to be in high compliance with the Forest Practices Code.

**Spills**

Canfor woodlands operations had 11 reportable spills in 2000. These spills were minor in nature and were appropriately managed. Spills included: one propane leak from a tank, one used oil spill from a tipped bucket, two sewage spills to the ground due to frozen lines, two diesel spills while fueling equipment, four hydraulic oil spills to the ground due to ruptured hoses or seals, and one to a creek due to a machine tipping over.

**Objectives and Targets for 2001**

Wood Residue Utilization - We will review opportunities for substantially increasing utilization of our sawmill wood residues and meeting our beehive burner phase-out commitments.

Greenhouse Gases - We will develop a strategy to further manage our greenhouse gas emissions so we are positioned to meet future climate change requirements.

Certification - Our Prince George Pulp and Paper, Intercontinental and HSPP mills will successfully retain ISO 14001 status. The Northwood Pulp Mill will obtain certification to the ISO 14001 standard by mid 2001. Canfor will certify TFL 30, its remaining area-based tenure, to the CSA standard and begin work on certifying its volume-based tenures in the Morice and Fort St. John Timber Supply areas to the CSA standard.

Audits - We will carry out internal audits of all pulp and paper mills, five sawmill operations, our plywood plant and all of our forest regions.

EMS - Our sawmill operations will implement key elements of the ISO 14001 standard.

Forest Practices Code Pilot - We will submit our draft Fort St. John performance based Forest Practices Code pilot regulation for public comment and forward to the provincial government for approval. If approval is granted, Canfor and its regional partners, Slocan, Louisiana-Pacific and the MoF Small Business Forest Enterprise Program, will commence with their results-based code pilot program.


Donated by
CANFOR

## Community Involvement

At Canfor, "Our Roots are in This Community" is not just a corporate slogan but a reflection of our commitment to the people and to the communities in which we operate. To this end, Canfor continues to focus its philanthropic activities in our operating communities of northern British Columbia and Alberta in the areas of:

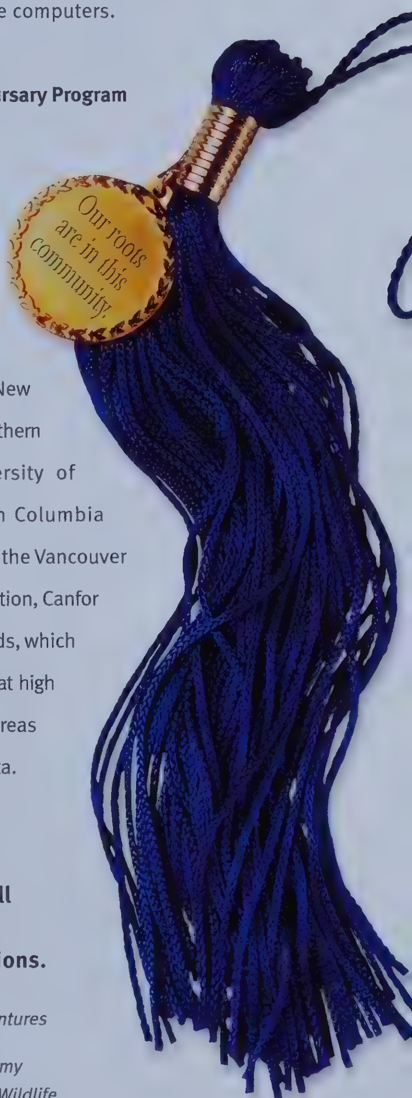
- **Youth and Education**
- **Community Enhancement**
- **Forestry and Environment**
- **Sport, Health, and Wellness**

**Canfor Computer Donation Program**

Canfor's Computer Donation Program provides schools and community organizations with the opportunity to upgrade or obtain the tools necessary to further develop their computer literacy. In 2000, Canfor donated approximately 500 computers to schools in Houston, Burns Lake, Topley, Granisle, Fraser Lake, Vanderhoof, Fort St. James, Prince George, and Fort St. John. A number of community organizations such as the Bulkley Valley Fair and Youth Around Prince George also benefited from the availability of the computers.

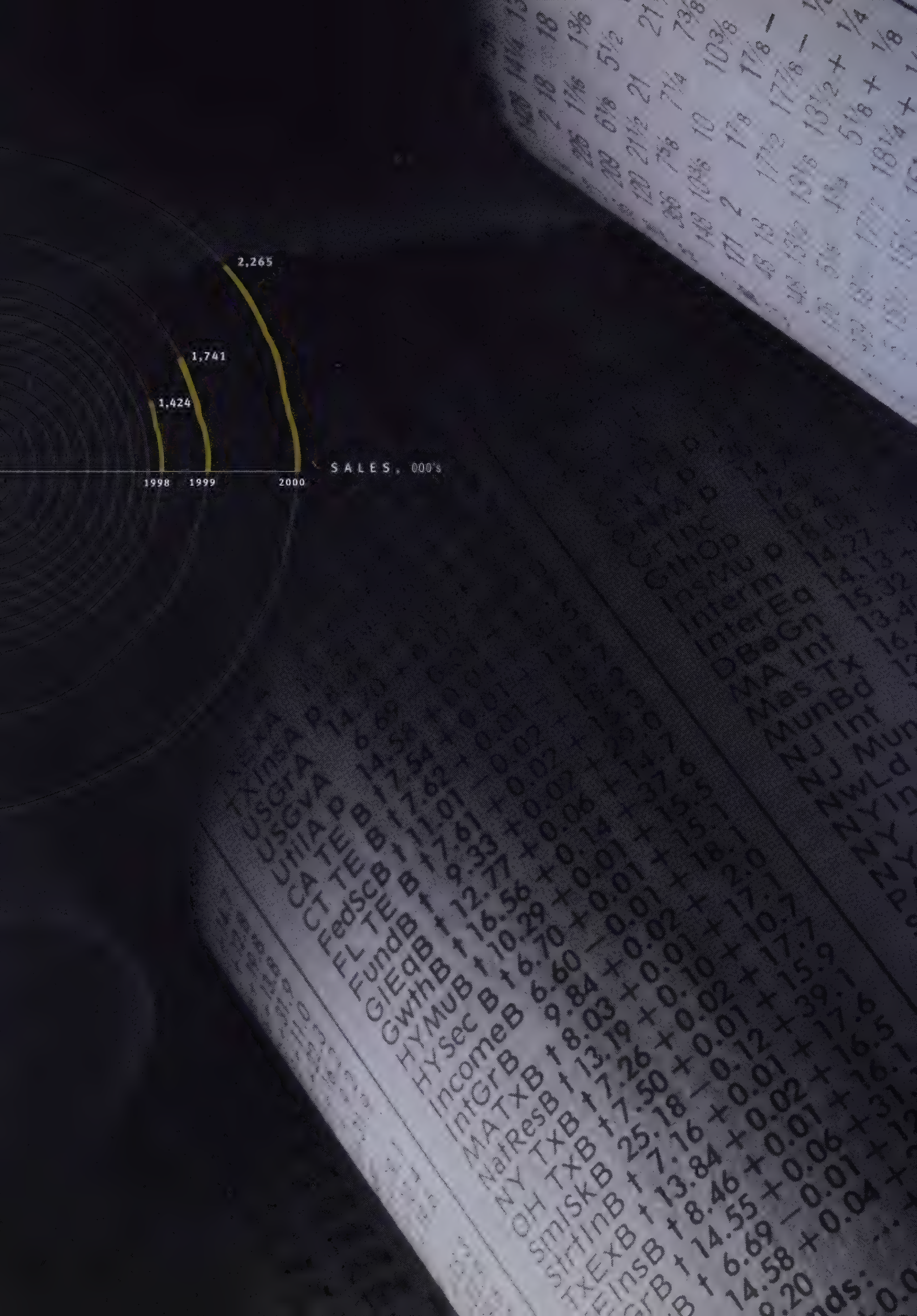
**Canfor Scholarship and Bursary Program**

The opportunity to pursue higher education continues to be a priority for Canfor. To date, Canfor has established 21 Corporate Awards distributed at the College of New Caledonia, University of Northern British Columbia, University of British Columbia, British Columbia Institute of Technology and the Vancouver Community College. In addition, Canfor provides a total of 19 awards, which are distributed to students at high schools in our operating areas throughout B.C. and Alberta.




**During the year, Canfor was proud to provide financial support to well over 200 community groups and initiatives in our operating regions. Our support included major contributions to the following organizations.**

*Alberta Sport Recreation Parks and Wildlife*
*BC Children's Hospital*
*Ballet BC*
*Bill Reid Foundation*
*Caledonia Dog Sled Race*
*Canadian Northern Children's Festival*
*Canadian Women in Timber*
*City of Prince George (Multiplex)*
*Cranbrook Hill Greenway Society*
*District of Fort St. James*
*Fort St. James Secondary School*
*Fraser Fort George Regional Museum*
*Grande Prairie Regional College*
*Green Thumb Players*
*Houston Public Library*
*Houston Secondary School*
*Lions Gate Hospital Foundation*
*National Institute of Disability*
*Northern BC Business Council on Substance Abuse*
*Prince George Aquatic Centre*
*Prince George Community Foundation*
*The Prince George Hospice Society*
*Prince George Public Library*
*Prince George Symphony Orchestra*
*Rotary Adventures in Forestry*
*Salvation Army*
*Spruce City Wildlife Association*
*St. John's Ambulance*
*St. Paul's Hospital Foundation*
*Two Rivers Art Gallery*
*United Way Lower Mainland*
*United Way Prince George*
*Vancouver Playhouse Theatre*
*Vancouver Summer Festival*
*Vancouver Symphony*
*Vancouver Recital Society*
*VGH & UBC Hospitals*


2,265
1,741
1,424
1998
1999
2000
SALES, 000's

# Financial Results

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## Summary of Operating Results

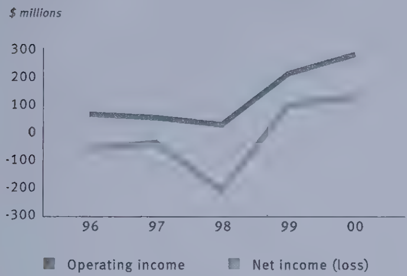
| Year ended December 31 | 2000 | 1999 (1) (2) |
|---|---|---|
| **Sales volume – major products** | | |
| Lumber – MMfbm (3) | **2,193.0** | 1,433.8 |
| Plywood – 000 Msf 3/8" basis (3) | **163.2** | 19.2 |
| Pulp – 000 mt (4) | **952.5** | 548.7 |
| Specialty Kraft Paper – 000 mt | **105.7** | 102.7 |
| Logs – 000 $m^3$ | **1,574.1** | 1,759.7 |

| (millions of dollars) | | |
|---|---|---|
| **Sales** | | |
| Wood Products | **$ 1,179.6** | $1,089.9 |
| Pulp Products | **667.2** | 254.2 |
| Pulp and Specialty Kraft Paper | **221.9** | 186.4 |
| Coastal Operations | **197.2** | 210.7 |
| Total sales | **$ 2,265.9** | $1,741.2 |
| **Segmented operating income** | | |
| Wood Products | **$ 40.9** | $ 157.0 |
| Pulp Products | **197.4** | 33.0 |
| Pulp and Specialty Kraft Paper | **41.5** | 11.4 |
| Coastal Operations | **23.9** | 30.6 |
| Total segmented operating income from continuing operations | **303.7** | 232.0 |
| **Non-segmented income (expenses)** | | |
| Non-segmented expenses | **(40.1)** | (23.2) |
| Equity in income of affiliated companies | **1.2** | 7.8 |
| Net interest expense | **(60.4)** | (33.2) |
| Other income (expense) | **7.5** | (0.5) |
| Unusual items | **(2.5)** | — |
| Total non-segmented expenses | **(94.3)** | (49.1) |
| **Net income from continuing operations before income taxes** | **209.4** | 182.9 |
| Income tax expense | **(83.8)** | (76.0) |
| **Net income from continuing operations** | **125.6** | 106.9 |
| Net loss from discontinued operations | — | (4.3) |
| **Net income** | **$ 125.6** | $ 102.6 |
| Cash flow from operating activities | **$ 100.8** | $ 210.9 |

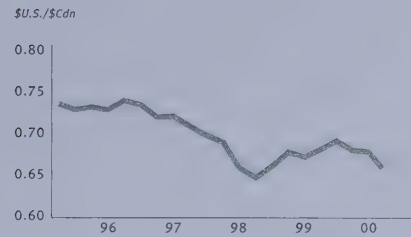
| (dollars per common share) | | |
|---|---|---|
| Net income before discontinued operations | **$ 1.50** | $ 1.75 |
| Net income | **1.50** | 1.68 |
| Net income – diluted | **1.36** | 1.66 |

(1) The results of Northwood are included from November 23, 1999.
(2) Comparative figures have been restated to conform to the 2000 presentation.
(3) Lumber and plywood sales volume represents Canfor production only.
(4) Pulp sales volume excludes HSPP sales volume of 324.7 (000 mt) in 2000 and 329.4 (000 mt) in 1999.

### Net income and operating income



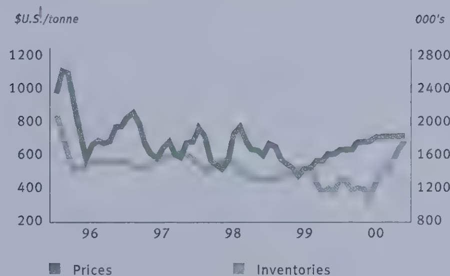

### $U.S./$Cdn average annual exchange rate




### North American lumber prices* and housing starts

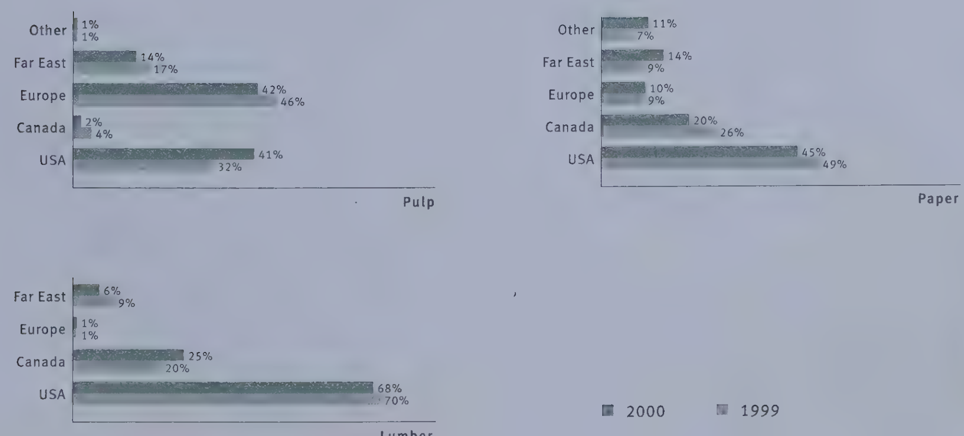

* Average 2"x 4" SPF random length price (F.O.B. Mill) - Source Random Lengths publication.

### NBSK pulp prices/ chemical pulp producer inventories*




* Average price paid by contract buyer, delivered to Northern Europe/Norscan Chemical Paper Grade Market Pulp Producer Inventories – Source CPPA.

### Sales by region for Canfor's key products



*The Management's Discussion and Analysis provides a review of the significant developments that have impacted Canfor's performance during 2000 relative to 1999. Factors that could impact future operations are also discussed. These factors may be impacted by known and unknown risks and uncertainties that may cause the actual results to be materially different than those implied in this discussion.*

*All 1999 comparatives include Northwood's results from November 23, 1999 and have been restated to conform to the 2000 presentation.*

## Overview of 2000

### A Year of Growth

2000 marked a year of tremendous growth for Canfor Corporation (Canfor or the Company) as the Company nearly doubled in size. With the acquisition of Northwood Inc. (Northwood) late in 1999, Canfor grew by the addition of four sawmills, one plywood mill, a two-line pulp mill, one wood treatment plant, two whole log chipping facilities, 3.4 million cubic metres of allowable annual cut (AAC) and the people to manage it all. The end result was an increase in the AAC by 58 per cent to 9.2 million cubic metres, an increase in lumber capacity by 65 per cent to 2.6 billion board feet and an increase of 120 per cent in pulp capacity to 1.0 million tonnes. Canfor's focus early in the year was to integrate the two organizations into a new Canfor. During this period, a new organization structure was developed, employees were assessed and many changed responsibilities based upon their strengths, which in the end has the new Canfor becoming a blend of the best from both the Canfor and legacy Northwood organizations. The second half of the year was focussed on fine-tuning Canfor's strategic plan to the new asset base and changing market conditions. The review has positioned Canfor to become a more focussed and a more competitive company. Also, since pulp prices and lumber prices tend to vary inversely in their respective market cycles, Canfor has repositioned itself to be better balanced between these two markets.

### Results for the year

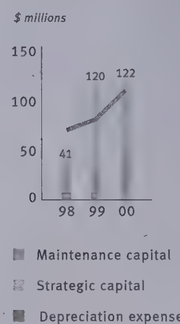
- Net sales for the year increased by 30 per cent from $1.7 billion in 1999 to $2.3 billion in 2000.
- EBITDA increased in 2000 by 35 per cent to $376.3 million from $279.0 million in 1999.
- Segmented operating income increased by 31 per cent to $303.7 million, reaching a record level for Canfor.
- Net income increased by 22 per cent to $125.6 million in 2000.

The increases can be attributed to having a full year of Northwood operations included in the results, and a strong pulp market during the year, both of which were partially offset by a weak lumber market and corresponding lumber curtailments.

### Synergies

Throughout the year, Canfor focussed on realizing substantial cost and revenue synergies resulting from the integration of Northwood. Realization of synergies is ongoing with a focus in five key areas: working capital reduction, sales and logistics, fibre, process optimization and organization. Geographical proximity of Canfor's operations, with a focussed critical mass in the northern interior of British Columbia and Alberta, supports the expansion of product mixes, consistent product quality, improved fibre utilization, positioning for growth and cost reductions. In 2000, cost and revenue synergies arising from the Northwood acquisition contributed an estimated $73 million in working capital and operating income benefits.

**Capital investment program**




### Capital Expenditures

Canfor continued to invest resources to increase productive capacity, to improve product quality, production efficiency and product mix, to increase yield, and to reduce operating costs. $122 million was spent in 2000 on capital expenditures, of which $71 million was spent on strategic investments and $51 million, or 45 per cent of depreciation, was allocated to the maintenance of business capital. Over the past three years, Canfor has invested $162 million in strategic capital in its operations.

**Dividends**

Canfor returned to paying dividends in 2000, making over $21 million ($0.26 per share) in dividend payments to shareholders.

## Operating Results

The following discussion relates to the operating segments and the non-segmented items as per the Statement of Segmented Information in the Financial Statements. Due to strategic initiatives and the realignment of reporting structures of some of its operations, for 2000 Canfor has realigned itself into the following operating segments: Wood Products, Pulp Products, Pulp and Specialty Kraft Paper and Coastal Operations. In 1999, the company was organized as Northern Wood Products, Pulp and Specialty Kraft Paper, Coast Wood Products and Chemical Manufacturing. The Chemical Manufacturing segment is now part of the Pulp Products segment.

### WOOD PRODUCTS

The Wood Products segment is comprised of logging and forestry operations supporting 13 sawmills, a plywood manufacturing facility, four re-manufacturing operations, two whole log chipping plants, a wood treatment plant and a seedling nursery. Also included in the segment is Canfor's lumber and plywood marketing group. Results for the Wood Products segment for 2000 and 1999 are as follows:

| (millions of dollars) | **2000** | 1999 |
|---|---|---|
| Net sales | **$ 1,179.6** | $ 1,089.9 |
| Operating income | **$ 40.9** | $ 157.0 |
| EBITDA | **$ 86.5** | $ 182.6 |
| EBITDA margin | **7%** | 17% |
| Capital expenditures | **$ 71.6** | $ 63.3 |

**Markets**

A major contributor to the decrease in operating income in 2000, from 1999, is due to the dramatically lower lumber prices. The North American market benchmark 2"x 4" SPF random length lumber price decreased by 25 per cent, from an average of $343 U.S. per thousand board feet in 1999 to $257 U.S. in 2000, falling below the five-year historical average of $319 U.S. per thousand board feet. Lumber prices fell throughout the year, closing at a ten-year low of $180 U.S. per thousand board feet. The Canadian dollar weakened against the U.S. dollar in the last quarter of the year to provide some relief on the lower prices. Overall, the Canadian dollar to U.S. dollar exchange rate was similar to 1999 averaging $1.49 Cdn for $1.00 U.S. in both years.

The United States economy weakened in the second half of 2000 partially due to rising interest rates which resulted in declining housing starts and a softening of lumber demand and prices. Quota restrictions under the Canada-U.S. Softwood Lumber Agreement, combined with exceptionally low prices, resulted in considerable downtime taken by Canadian producers.

Lumber shipments from Canfor's operations increased by 759 million board feet or 53 per cent over 1999. This increase was due to additional production volume from the legacy Northwood operations, the benefits from capital expenditures and internal operating efficiencies, all of which were reduced by market curtailments. Shipments to the U.S. declined two per cent indicating the lower demand in the U.S. market. Shipments within Canada increased five per cent reflecting the strong Canadian economy in 2000.

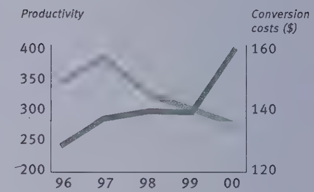
| | **2000** | 1999 | 1998 | 1997 | 1996 |
|---|---|---|---|---|---|
| Lumber shipments (millions of board feet) | | | | | |
| Canfor production | **2,193** | 1,434 | 1,423 | 1,428 | 1,553 |
| Other producers | **376** | 537 | 398 | 365 | 287 |
| Plywood shipments – thousands of square feet 3/8" basis (a) | **163** | 19 | — | — | — |
| Chip shipments (thousands of bone dried units) | **1,350** | 757 | 812 | 829 | 899 |

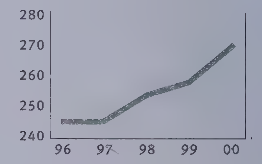
(a) Represents sales of Canfor production only

### Operating Performance

Production curtailments resulting from the weakening lumber market were a major factor contributing to the $116.1 million decrease in operating income of the Wood Products segment in 2000. As a result of quota restrictions inherent in the Softwood Lumber Agreement between Canada and the United States, approximately 15 per cent, or 380 million board feet of Canfor's primary milling capacity, was curtailed in 2000, adversely impacting operating income. The erosion of operating income in 2000 can also be attributed in part to the high cost of fibre. Relative to the market, Canfor has experienced high stumpage levels which has negatively impacted the group's results. Offsetting the impact of lumber prices, production curtailment and high fibre costs were the benefits of chip prices increasing 15 per cent due to a stronger pulp market, the realization of returns on strategic capital investments, the realization of synergies from the Northwood acquisition, a one time rebate from the Workers' Compensation Board of British Columbia and various initiatives around benchmarking and best practices. The results of these initiatives can be best illustrated in the following charts:

**Operational improvements**




### Outlook

North American lumber demand is expected to remain low for the first half of 2001 before picking up during the second half of the year. The lumber market and, in particular, Canadian lumber producers, are facing considerable uncertainty with the March 31, 2001 expiry of the Canada-U.S. Softwood Lumber Agreement. Combining the uncertainty of what, if anything, replaces the current Softwood Lumber Agreement with the expected continuation of the economic slow down in North America, the result is an unsettled outlook for 2001. The bright spot may be a continuation in 2001 of the 37 per cent growth of the Japanese western style lumber market experienced this past year. The new Quality Assurance Standards law in Japan is expected to have a positive effect on Canfor's 2"x 4" market as the new standards include several of the criteria Canfor currently follows.

## PULP PRODUCTS

The Pulp Products segment is comprised of the Intercontinental and Northwood pulp mills and a chemical operation located within five kilometres of each other in Prince George, British Columbia.

The chemical plant produces and supplies sodium chlorate to Canfor's Pulp Products segment, Pulp and Specialty Kraft Paper mill and to external customers for use mainly in the bleaching phase of the kraft pulping process. It also produces crude and de-pitched tall oils from a by-product of the kraft pulping process.

The results of the Pulp Products segment for 2000 and 1999 were as follows:

| (millions of dollars) | 2000 | 1999 |
|---|---|---|
| Net sales | $ **667.2** | $ 254.2 |
| Operating income | $ **197.4** | $ 33.0 |
| EBITDA | $ **232.6** | $ 52.0 |
| EBITDA margin | **35%** | 20% |
| Capital expenditures | $ **19.8** | $ 18.6 |

### Markets

The largest contributor to the $164.4 million increase in operating income for the segment is the increase in pulp prices during the year. Market prices for pulp trended upwards during the first half of 2000 from $630 U.S. per tonne to a high of $710 U.S. per tonne in July 2000 which was maintained for the remainder of the year. The average pulp price in 2000 of $681 U.S. per tonne represents an increase of $161 U.S. over the 1999 average price per tonne for pulp bound for the European market. Price increases were realized despite an increase in producer inventory levels and increases in capacity growth. NORSCAN inventories ended the year at 1.764 million tonnes, up 0.613 million from the previous year. Waning demand for pulp

in the last quarter of 2000 resulted in industry announcements of curtailment. Canfor's Pulp Products segment curtailed production by approximately 27,500 tonnes. No market curtailment was taken in 1999.

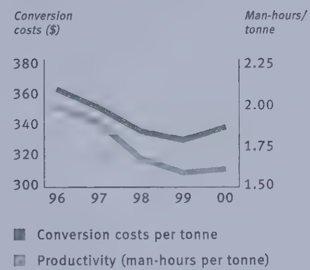
| Shipments (thousands of tonnes) | **2000** | 1999 | 1998 | 1997 | 1996 |
|---|---|---|---|---|---|
| Pulp | **790** | 374 | 284 | 266 | 243 |

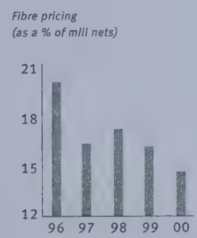
As a result of combining the Northwood customer mix, pulp sales increased nine per cent into the U.S. market to make up 41 per cent of Canfor's sales.

### Operating Performance

Besides the increase in pulp prices, other contributing factors to the increase in operating income of the Pulp Products segment were reduced marketing costs realized as a synergy from the Northwood acquisition and the positive effects of a weaker Canadian dollar in the last quarter of 2000. The increase in operating income was partially offset by increased wood chip, chemical and fuel prices. Wood chip base price increases reflect a market driven pricing formula. Significant cost reductions were made in 2000 through optimized sourcing and negotiation of commercial contract rates for supplies and processing materials. In addition, since 1996 the segment has improved productivity by 18 per cent as measured in terms of tonnes produced per man-hour, decreased conversion costs by seven per cent and decreased the cost of fibre in relation to mill nets by 26 per cent. The increase in 2000 conversion costs and productivity is attributable to the curtailed production taken during the year. Since fibre is sourced by a single department, the fibre pricing chart reflects prices for all Canfor pulp and paper mills.

**Operational improvements**




### Outlook

After a slow start in 2001, Canfor expects pulp shipments will gradually recover in the spring and reflect the true consumption level of pulp for the rest of the year. The softwood pulp market is expected to be well balanced whereas the hardwood pulp market is expected to continue to show some weakness until the world economies recover fully. Prices are under pressure early in the year but are expected to stabilize as the expected increase in demand picks up and the pulp markets strengthen in the second half of the year.

## PULP AND SPECIALTY KRAFT PAPER

The Pulp and Specialty Kraft Paper segment was created to focus on high margin, high performance value added papers. This segment, which consists of the Prince George Pulp and Paper Mill, is located in Prince George, British Columbia. Results of the segment for 2000 and 1999 are as follows:

| (millions of dollars) | **2000** | 1999 |
|---|---|---|
| Net sales | **$ 221.9** | $ 186.4 |
| Operating income | **$ 41.5** | $ 11.4 |
| EBITDA | **$ 55.6** | $ 24.0 |
| EBITDA margin | **25%** | 13% |
| Capital expenditures | **$ 10.3** | $ 25.2 |

### Markets

The $30.1 million increase in operating income is due to higher pulp and specialty kraft paper prices in 2000 as compared to 1999. Kraft paper prices rose in 2000 to $755 U.S. per tonne for high performance paper and $940 U.S. per tonne for bleached kraft paper. The mill was in a strategic position to benefit from these price increases as the paper line started to produce high performance paper as the result of a recent capital expenditure on the paper machine. On a similar front, other paper machine enhancements, which will take place in the first half of 2001, will increase capacity to 125,000 tonnes in 2001 in branded kraft papers, as compared to the 109,900 tonnes produced in 2000. Branded kraft papers include POLAR KRAFT® (bleached

kraft paper) and KODIAK KRAFT™ (high performance unbleached kraft paper). Shipments of the higher margin branded kraft papers made up 62 per cent of total shipments compared to 35 per cent in 1999.

| Shipments (thousands of tonnes) | **2000** | 1999 | 1998 | 1997 | 1996 |
|---|---|---|---|---|---|
| Pulp | **163** | 174 | 165 | 166 | 163 |
| Specialty Kraft Paper | **106** | 103 | 102 | 97 | 91 |

**Operating Performance**

The increase in operating income of the Pulp and Specialty Kraft Paper segment in 2000, from 1999, is primarily a reflection of increasing multi-wall kraft paper prices, a shift in product mix to higher valued branded papers and increasing prices for market pulp. The increase in sales revenue was partially offset by a seven per cent increase in wood chip costs, escalating energy costs (particularly the 35 per cent increase in natural gas prices over 1999) and chemical cost increases. Increases in chemical costs are primarily due to heavier use of anthraquinone, a cooking agent that improves wood chip yield. Operational optimization points are being fine tuned as paper machine enhancements come online, positioning this segment to achieve profit enhancing productivity and quality targets. Overall, 2000 was a transition year for this new segment as it begins to transform its focus from a pulp mill to a paper mill. With the start up curve now behind it, the group is positioned to capture more of the high margin kraft paper market.

**Outlook**

A growth trend in the use of high performance papers in the U.S. market place provides the impetus for the tactical shift to specialty papers. Supporting this trend is the recent announcement by a U.S. manufacturer of multi-wall bags that it will utilize high performance paper. Consolidation and rationalization dynamics at play in the industry, particularly in the U.S., are expected to help ensure prices remain firm and hence increase Canfor's competitive position. Specialty grades of pulp are targeted for niche markets that value the superior quality of long-fibre pulp that Canfor produces.

## COASTAL OPERATIONS

Canfor's Coastal Operations segment is comprised of the Englewood and Mainland logging operations, Coast Fibre Supply operation and the Panel and Fibre operation. The results for the segment for 2000 and 1999 were as follows:

| (million of dollars) | | **2000** | | 1999 |
|---|---|---|---|---|
| Net sales | **$** | **197.2** | $ | 210.7 |
| Operating Income | **$** | **23.9** | $ | 30.6 |
| EBITDA | **$** | **37.1** | $ | 43.1 |
| EBITDA margin | | **19%** | | 20% |
| Capital expenditures | **$** | **12.3** | $ | 12.2 |

**Markets**

a) Logging Operations - The average price for logs dropped in the latter part of the year in expectation of a declining pulp market. Also, log sales into the Japanese market were poor and there was an unfavourable fluctuation in the Japanese Yen. In addition, there was restricted access of Coastal producers into the U.S. market.

b) Panel and Fibre - Hardboard products once again were very strong particularly in the export market. Prices and volumes increased in the export market while remaining steady in the North American market. Fibre mat sales achieved record levels in 2000 due primarily to increased car sales.

| | **2000** | 1999 | 1998 | 1997 | 1996 |
|---|---|---|---|---|---|
| Log shipments (thousands of cubic metres) (1) | **1,639** | 1,570 | 1,204 | 1,247 | 1,372 |
| Hardboard shipments (millions of square feet – 3/8" basis) | **24** | 23 | 23 | 24 | 24 |
| Refined fibre and fibre mat (thousands of oven-dried metric units) | **39** | 34 | 30 | 35 | 30 |

(1) Sales of Canfor production only

### Operating Performance

a) Logging Operations - Operating income decreased by $6.7 million from 1999 to 2000 as the average price of logs fell by approximately seven per cent. During 2000, Canfor's logging operations incurred high operating and contractor costs which were partially offset by lower stumpage costs. Camp costs were higher than in 1999 due to an increase in fuel costs and the two per cent wage increase from the newly signed IWA collective agreement, negotiated in 2000. Stumpage costs were 20 per cent lower in 2000 as a result of an increase in heli-logging (which increases costs but reduces stumpage), logging more private wood (which has no stumpage costs), and the provincial government's market pricing initiatives on Hemlock logs (which has reduced stumpage costs).

b) Panel and Fibre - The Panel and Fibre operation showed significant improvements over 1999. Increasing demand for hardboard and refined fibre products provided marginally higher mill nets during 2000. The greatest improvement was made in manufacturing costs, which decreased nine per cent. This, coupled with the slight improvement in sale prices, has resulted in a 113 per cent improvement in operating income. The operation contributed approximately 30 per cent of the segment's total operating income.

### Outlook

a) Logging Operations - Expectations for 2001 include declining pulp log prices due to the softening pulp market. The Coastal log market is forecasted to level out in the spring with a gradual recovery expected through the remainder of 2001.

b) Panel and Fibre - Hardboard sales are expected to stay strong throughout 2001 as the operation continues to focus on higher margin panels. As well, continued expansion into the export market will be a focus for the operation. Baled fibre and fibre mat sales are expected to decline due to the economic slowdown in North America.

### Non - segmented Expenses

Non-segmented expenses, which are comprised of corporate costs, information technology and research and development expenses, increased to $40.1 million in 2000 from $23.2 million in 1999. The increase reflects the larger corporate demands arising from the acquisition of Northwood, Canfor's increased emphasis on information technology and an increase in capital tax as the result of Canfor's much larger capital base.

Canfor's equity affiliated companies consist of Lakeland Mills Ltd., The Pas Lumber Company Ltd., Kyahwood Forest Products joint venture and Chunzoohl Forest Products joint venture. Lakeland and The Pas own sawmills in the Prince George region and supply wood chips to Canfor's pulp mills. Canfor's 49 per cent interest in Kyahwood is in a value added lumber facility in Moricetown, British Columbia. The 50 per cent interest in Chunzoohl Forest Products was sold in July 2000. The combined income of these affiliates amounted to $1.2 million in 2000 as compared to $7.8 million in 1999. The primary reasons for the decline are similar to those underlying the results of Canfor's Wood Products segment.

Net interest expense, as detailed in Note 10 to the Financial Statements, increased to $60.4 million in 2000 from $33.2 million in 1999. Short-term interest expense increased as a result of the short-term acquisition loans taken out at the time of the Northwood acquisition and from reduced short-term investment income earned in 2000 as the result of the funds applied to the Northwood acquisition.

Other income of $7.5 million was primarily from the sale of redundant assets that were acquired in the purchase of Northwood.

Reflected in 2000 in Unusual Items are $3.1 million of costs associated with closing the Northern Specialties Division, a small pilot project that proved to be uneconomical. This was partially offset by a $0.6 million gain on the sale of Canfor's proprietary technology regarding phytosterol extraction from a by-product of the pulping process.

### Restructuring Howe Sound Pulp and Paper Limited

Subsequent to the year end, Canfor and Oji Paper Co., Ltd. (Oji Paper) of Japan announced the planned reorganization of their joint venture, Howe Sound Pulp and Paper Limited (HSPP) into a jointly owned limited partnership. This reorganization is the culmination of several years of effort to enhance the long-term economic viability of this joint venture. As a result of the reorganization, Canfor will strengthen its fibre supply commitments and make payments up to a maximum of $118 million, including an initial payment of $60 million, which

will be used to reduce the long-term debt of HSPP. Also part of the reorganization, HSPP's tax losses of $620 million will be merged with Canadian Forest Products Ltd., Canfor's primary operating subsidiary. The losses will be available to reduce Canadian Forest Products Ltd.'s future taxable income. Canfor wrote off its interest in the joint venture in 1998 and no longer reflects its share of HSPP's results. Canfor's method of accounting for its interest in HSPP will not change as a result of the reorganization.

### Sensitivities

The sensitivity of Canfor's results to changes in the prices for its major products and in the value of the Canadian dollar relative to the U. S. dollar, expressed in terms of after-tax earnings, is estimated to be approximately as follows:

| (millions of dollars) | |
|---|---|
| Lumber - $10 U.S. change per Mfbm | $ 17.6 |
| Pulp - $10 U.S. change per tonne | 8.4 |
| Specialty Kraft Paper - $10 U.S. change per tonne | 0.8 |
| Canadian dollar - $0.01 U.S. change per Canadian dollar | 14.8 |

### Summary of Financial Position

The following table summarizes Canfor's financial position as at the end of the years 2000 and 1999 and the cash flow related to the changes in financial position for those years.

| (millions of dollars) | 2000 | 1999 |
|---|---|---|
| Net cash (short-term indebtedness) | $ (65.0) | $ 30.2 |
| Operating working capital | 395.5 | 342.3 |
| Short-term bank loans | (205.4) | (225.4) |
| Current portion of long-term debt | (49.6) | (29.7) |
| Current portion of deferred reforestation | (35.4) | (43.8) |
| Income taxes recoverable (payable) | 31.0 | (88.8) |
| Net working capital | 71.1 | (15.2) |
| Long-term investments | 74.0 | 69.8 |
| Property, plant, equipment and timber | 1,518.4 | 1,384.8 |
| Deferred charges | 116.8 | 93.1 |
| **Net assets** | $ 1,780.3 | $ 1,532.5 |
| Long-term debt | $ 400.9 | $ 442.2 |
| Deferred reforestation | 42.4 | 38.8 |
| Other long-term liabilities | 22.4 | 10.7 |
| Future income taxes - net | 363.9 | 139.0 |
| Common shareholders' equity | 950.7 | 901.8 |
| **Total capitalization** | $ 1,780.3 | $ 1,532.5 |
| Ratio of current assets to current liabilities | 1.1 : 1 | 1:1 |
| Ratio of net debt to common shareholders' equity | 43 : 57 | 43:57 |
| Cash generated from (used in) | | |
| Operating activities from continuing operations | $ 100.8 | $ 210.9 |
| Dividends | (21.1) | — |
| Financing activities | (55.5) | 259.0 |
| Investing activities | (119.4) | (539.6) |
| Increase (decrease) in net cash from continuing operating activities | (95.2) | (69.7) |
| Increase (decrease) in net cash from discontinued operations | — | 13.8 |
| Increase (decrease) in net cash | $ (95.2) | $ (55.9) |

### Changes in Financial Position

Canfor's ratio of current assets to current liabilities increased slightly from 1.0:1 at the end of 1999 to 1.1:1 at the end of 2000 with net working capital increasing by $86.3 million in 2000. Canfor's ratio of net debt to equity remained unchanged from 1999 at a ratio of 43:57. The changes in the components of these ratios during 2000 are detailed in the Consolidated Cash Flow Statement of the Financial Statements. The more significant of those changes are discussed below.

### Operating Activities

Cash generated from operating activities during 2000 amounted to $100.8 million, which is $110.1 million lower than the $210.9 million generated in 1999. The decrease is mainly attributed to $141.4 million of cash applied to non-cash working capital changes, whereas in 1999 non-cash working capital changes contributed $32.3 million of cash. In 2000, net income and depreciation were $61.2 million higher than in 1999, which partially offset the impact of the cash applied to the non-cash working capital items. The increase in net income has been discussed previously under Operating Results. The increase in depreciation, depletion and amortization is the result of the Northwood acquisition in combination with the capital expenditures Canfor has made in 1999 and 2000.

The major change in non-cash working capital was the reduction of accounts payable and accrued liabilities by $109.3 million. This was a result of lower trade accounts payable, a lower stumpage liability as the result of lower stumpage rates and less logging in the latter part of 2000 than in the same period in 1999 and $21.6 million spent out of the $47 million provision arising from the Northwood acquisition to restructure the two companies. The second major item in the non-cash working capital change was the reduction of net income taxes payable by $80.2 million. This change primarily reflects the payment, in 2000, of the income tax liability generated in 1999 since the loss incurred in 1998 eliminated the requirement to pay income tax installments in 1999. These cash requirements were partially offset by $51.4 million generated from lower accounts receivable in 2000. This decrease is primarily the result of lower lumber, pulp and paper shipments combined with substantially lower lumber prices in December 2000 as compared to December 1999.

### Financing Activities

In 1999, in order to finance the Northwood acquisition, Canfor raised $155.0 million through the issuance of 6.25 per cent Convertible Subordinated Debentures maturing in November 2006, raised net proceeds of $239.5 million on the issuance of common shares, and drew down $150.0 million, of which it subsequently repaid $100.0 million, of a short-term acquisition loan facility made available from a syndicated bank group. In 2000, Canfor repaid a further $20 million of the acquisition loan and made scheduled debt retirements of $30.7 million, which was virtually identical to the $30.5 million of scheduled debt retirements in 1999.

The Company re-instated its quarterly cash dividends on its common shares commencing in the first quarter of 2000 and paid $0.26 per common share for the year, which amounted to $21.1 million. In 1999, as a consequence of the loss recorded in 1998, resulting from the write-off of HSPP, the payment of cash dividends on the Company's common shares was restricted by the provisions contained in the long-term borrowing agreements.

### Investing Activities

Investments in property, plant, equipment and timber totaled $121.8 million in 2000 as compared to $119.9 million in 1999. The capital spending in 2000 reflects the continuation of the program, which commenced in 1999, of strategic projects focussed on improving productivity and operational efficiency in the sawmills, upgrading the kraft paper machine for increased speed and production of high performance paper, and reducing energy and chip-handling costs through co-generation and chip-handling projects at the Prince George Pulp and Paper and Intercontinental pulp mills.

In 1999, Canfor's investing activities were dominated by the acquisition of all of the outstanding shares of Northwood Inc. for $635 million. The aggregate purchase price consisted of cash in the amount of $433.2 million, net of $46.8 million of cash included in Northwood's assets, and of $155 million principal amount of Convertible Subordinated Debentures.

In 2000, Canfor sold its proprietary technology to extract phytosterols from a by-product of the pulping process for $2.5 million in cash and $1.0 million in convertible debentures. In 1999, Canfor realized $6.9 million on the divestment of its 50 per cent interest in Canwel Distribution Ltd.

### Financial Requirements and Liquidity

At the end of 2000, Canfor had net short-term indebtedness of $65.0 million and unused bank operating lines of credit of $109.7 million. At the end of 1999, Canfor had cash and temporary investments net of unpresented cheques of $32.5 million, and unused bank operating lines of credit of $157.7 million.

Also at the end of 2000, Canfor had short-term, floating rate bank loans of $205.4 million arising from the Northwood acquisition which it intends to replace with longer term, fixed rate debt in 2001.

Provisions contained in Canfor's long-term borrowing agreements limit the amount of indebtedness that the Company can incur and the amount of dividends it may pay on its common shares. The amount of dividends the Company is permitted to pay under its long-term borrowing agreements is determined by reference to consolidated net earnings less certain restricted payments. As at December 31, 2000, the Company would be permitted under these agreements to incur $377.6 million (1999 - $332.0 million) of additional long-term debt and pay up to $80.7 million (1999 - $14.5 million), or $0.99 per share (1999 - $0.18 per share) in dividends on its common shares. The agreements do not restrict payment of dividends on preferred shares or dividends paid in common shares of the Company.

Canfor has planned capital expenditures of approximately $90 million for 2001. In addition to the normal maintenance of business capital spending, Canfor is planning to spend approximately $30 million on strategic projects targeted to reduce costs, improve productivity and increase the value of its products in the market place. In addition, approximately $10 million is planned for completion of the project for the upgrading of the kraft paper machine to increase kraft paper production generally and, specifically, the production of specialty paper at the Prince George Pulp and Paper Mill.

In 2001, $49.6 million is required for installment payments on long-term debt.

Canfor intends to finance its planned capital expenditures and scheduled debt repayments from cash generated from its operations.

As part of the reorganization of Howe Sound Pulp and Paper Limited as a limited partnership, Canfor is required to make an initial payment of approximately $60 million plus the costs of the reorganization. Canfor intends to finance this payment out of its lines of credit. This short-term borrowing is intended to be repaid out of the elimination of income tax installments that will result from the utilization, over several years, of the approximately $620 million of tax losses Canfor will acquire in this reorganization. Of the total $118 million payment, the remaining $58 million of future payments and contributions that Canfor will make as the result of this reorganization will be made as Canfor realizes the income tax losses. Under current income tax law, Canfor has seven years within which to utilize the losses it will acquire in this reorganization.

## Risks and Uncertainties

Virtually all companies in the forest industry in North America, including Canfor, face similar business risks and uncertainties. These risks and uncertainties fall into the general business areas of markets, currency, environmental issues, forest land base, government regulations and, for Canadian companies, trade barriers and aboriginal land claims.

Demand for forest products, both pulp and paper and wood products, are closely related to global business conditions and tend to be cyclical in nature, with product prices subject to volatile change. Canfor, like the majority of the Canadian forest products industry, competes in a global market and the majority of the products sold are denominated in United States dollars. Thus, foreign currency relationships pose a significant uncertainty. Shifts in these relationships can have a significant impact, positive or negative, on profits from operations. By maintaining a substantial proportion of its debt in United States dollars, Canfor has partially mitigated the impact of fluctuations in that currency. The sensitivity of Canfor's results to currency swings and prices for its principal products is discussed under Operating Results.

The collective agreements with the unions representing employees in Canfor's two Alberta sawmill operations expire in February 2001. Thus, there is the possibility of work stoppages in either or both operations.

There is uncertainty over the potential impact of both existing and proposed environmental legislation. Of continuing concern is the British Columbia pulp and paper effluent regulation which requires mills to completely eliminate organochlorine discharge (measured as AOX) in mill effluent, by December 31, 2002. The British Columbia pulp and paper industry has indicated to the provincial government that going to zero AOX is not required from an environmental perspective, nor is it technically feasible or financially viable for mills to convert their processes. British Columbia is the only jurisdiction in the world with such a requirement. Canfor's management is cautiously optimistic that the Government of the Province of British Columbia will amend the requirement for pulp and paper mills to achieve zero AOX.

A Canada Wide Standard has been established by the Government of Canada for respirable particulate levels in ambient air which is twice as stringent as the corresponding standard in the United States. The standard is intended to be effective in 2010 following additional technical, scientific and economic analysis required to be complete by the end of 2005. This standard could require future source reductions of respirable particulate emissions from Canfor's pulp, paper and sawmill facilities.

The City of Prince George and the Regional District of Fraser-Fort George have approved an Airshed Management Plan. This could result in requirements for industrial emission sources in Prince George to curtail operations during periods of poor air quality when the local Ministry of Environment issues air quality advisories. This could periodically interrupt the operation of Canfor's mills located within the Prince George airshed.

The mountain pine beetle currently poses a significant threat to the lodgepole pine forests in the west-central interior region of British Columbia. Lodgepole pine accounts for 25 per cent of the total timber volume harvested in British Columbia and 50 per cent of the total timber volume harvested by Canfor in the region. The present outbreak is causing Canfor to aggressively redirect planned timber development over the next five years to prevent both short-term and long-term losses in allowable annual cut. Canfor is working with the Ministry of Forests and other operators in the region to implement a cooperative program to combat this outbreak.

The Federal Minister of Environment has re-introduced into Parliament a Species at Risk Act. The Act would provide for regulatory restrictions on the use of public and private lands to protect critical habitat for any wildlife species listed as endangered or threatened. Of the more than 350 species considered at risk in Canada, 26 are located in the working forests of British Columbia. The economic implications of this Act are potential reductions in timber harvests and increases in harvesting costs in British Columbia.

Woodworkers for Fair Forest Policy Society (WFFPS) and an individual have filed a petition against the Minister of Forests seeking judicial review of various issues in connection with Canfor's TFL 37 (Englewood) and, among other things, the cancellation of the TFL. The action results from the closure of the Eburne Sawmill in 1998. Canfor has been added as a party to the proceedings, which were heard in October 2000. The claims of the petitioners were dismissed with costs by the Supreme Court of British Columbia, but the petitioners have filed a notice of appeal to the Court of Appeal. Canfor's management believes that the claims of the petitioners are without merit.

Aboriginal groups have claimed aboriginal title and rights over substantial portions of British Columbia, including areas where Canfor's forest tenures are situated. Provincial government policy requires that management and operating plans try to avoid infringing upon aboriginal rights. In some instances, aboriginal groups have sought to restrict the Crown from issuing or renewing forest tenures, without the consent of the group, on lands claimed by the group. The impact, if any, on Canfor and its tenures resulting from the treaty negotiation process is unknown at this time.

In December 1997, the Supreme Court of Canada issued the Delgamuukw decision in which it affirmed that aboriginal groups have a spectrum of aboriginal rights in lands used or occupied by their ancestors. Those rights may vary from rights of limited use up to aboriginal title. This decision has added to uncertainty regarding property rights in Canada (including forest tenure and other resource rights), particularly in much of British Columbia and other areas where treaties were not concluded with aboriginal groups. The Court stated these principles in broad terms, and did not apply them to any particular lands. The Court confirmed that aboriginal rights and title are not absolute and may be infringed by the Crown, subject to meeting a justification test. This test requires that infringement be in furtherance of a legislative objective that is compelling and substantial, including forestry, and must be consistent with the special fiduciary relationship between the Crown and aboriginal peoples. The application of the principles enunciated in the decision will not be possible until subsequent decisions provide clarification, and the application of these principles to any particular land will not be possible until the exact nature of historical aboriginal use and occupancy and the resulting rights in the particular property has been determined.

In the Delgamuukw decision, the Court expressly encouraged the federal and provincial governments, and aboriginal people, to negotiate in good faith to resolve aboriginal claims and achieve "reconciliation". The federal and provincial governments are currently pursuing negotiation with numerous aboriginal groups towards comprehensive land claim settlements and treaties. Each land claim agreement and treaty may include unique provisions for dealing with forest tenures. It is the policy of the Government of the Province of British Columbia to respect the terms of all legal interests in Crown land including leases and tenures, but it is not yet possible to predict with certainty the impact of future land claim agreements and treaties.

In February 1996, an agreement (the "Softwood Lumber Agreement") was reached between Canada and the United States regarding the trade dispute over the export of Canadian softwood lumber to the United States. This agreement, which took effect during 1996 and expires on March 31, 2001, places a quota on duty free Canadian shipments of softwood lumber to the United States. Under this agreement, the provinces of British Columbia, Alberta, Ontario and Quebec have been able to export annually a total of 14.7 billion board feet of softwood lumber to the United States with no export fee imposed. Lumber exports in excess of this level, or a quarterly maximum of 28.75 per cent of the annual quota, have been subject to a two-tiered fee. This quota has enabled substitute products and lumber from Europe and Canadian provinces that were exempted from the quota to gain a larger portion of the market traditionally served by the four major producing Canadian provinces, in particular softwood lumber from British Columbia and Alberta.

Canfor believes that the Softwood Lumber Agreement will not be renewed which, will cause considerable uncertainty in the lumber markets as to its replacement. Canfor believes some trade restrictions will most likely still be in place at the time of, or imposed after, the expiration of the current agreement. Canfor believes that any new agreement with the United States would be more beneficial than the current agreement.

Canfor and other producers face the constant challenge of keeping abreast of customer demand for products that come from well-managed forests. In recent years, environmental groups have been lobbying customers to purchase products that have been certified by an independent third party as having been derived from well-managed forests. Increasing pressure from environmental groups has also resulted in large retailers of wood products requesting that producers provide them with verification that the products are not from endangered forests and are from well-managed forests. Canfor has attained the International Organization for Standardization (ISO) 14001 environmental management systems certification for all of its forest operations. In addition, Canfor has achieved certification under the Canadian Standards Association (CSA) standard for sustainable forest management (Sustainable Forest Management System Standard CAN/CSA Z809-96) for its Forest Management Agreement area at Grande Prairie, Alberta and for its Tree Farm Licences at its Chetwynd and Englewood, British Columbia operations. Canfor expects to attain certification of its remaining area-based tenure, TFL 30, in Prince George, British Columbia, to the CSA standard in mid-2001. Canfor is committed to certifying its volume-based tenures under the CSA standard in the near future and continues to monitor the other certification standards, such as the Sustainable Forestry Initiative (SFI) standard being developed by the American Forest and Paper Association and the Forest Stewardship Council (FSC) standard, for which B.C. and Alberta regional standards have not yet been developed.

The future effects of the various uncertainties and potential risks described in the foregoing cannot be quantified or predicted. However, Canfor does not foresee unmanageable adverse effects on its operations, and believes that it is well positioned to deal with such matters as may arise.

## Management's Responsibility

The information and representations in this Annual Report were prepared by Canfor's management. The consolidated financial statements were prepared in conformity with accounting principles generally accepted in Canada and, where necessary, reflect management's best estimates and judgements at this time. It is reasonably possible that circumstances may arise which cause actual results to differ. Management does not believe it is likely that any differences will be material. The financial information presented throughout this report is consistent with that contained in the consolidated financial statements.

Canfor maintains systems of internal accounting controls, policies and procedures to provide reasonable assurances as to the reliability of the financial records and the safeguarding of its assets. The Internal Audit Department performs independent reviews of the accounting records and related procedures. The Internal Audit Department reports its findings and recommendations both to management and the Audit Committee.

The Audit Committee of the Board of Directors is comprised of Directors who are not employees of the company. The Committee meets periodically throughout the year to review their respective responsibilities and to discuss the audit plans, the results of reviews of internal accounting controls, policies and procedures, and financial reporting matters. The external and internal auditors meet separately with the Audit Committee.

The consolidated financial statements have been reviewed by the Audit Committee, which recommended their approval by the Board of Directors.

## Auditors' Report

**To the Shareholders of Canfor Corporation**

We have audited the consolidated balance sheets of Canfor Corporation as at December 31, 2000 and December 31, 1999 and the consolidated statements of income and earnings reinvested in the business and cash flow for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2000 and December 31, 1999 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles. As required by the British Columbia Company Act, we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year except for changes in accounting policies as described in Note 1, Accounting Policies, in the consolidated financial statements.

PricewaterhouseCoopers LLP

February 7, 2001
Chartered Accountants
Vancouver, B.C.

## Consolidated Statement of Income and Earnings Reinvested in the Business

| Year ended December 31 (thousands of dollars) | 2000 | 1999 |
|---|---|---|
| **Net sales** | **$ 2,265,891** | $ 1,741,198 |
| **Costs and expenses** | | |
| Manufacturing and product costs | **1,822,098** | 1,414,334 |
| Depreciation, depletion and amortization | **112,691** | 70,166 |
| Selling and administration | **67,508** | 47,899 |
| | **2,002,297** | 1,532,399 |
| **Operating income** | **263,594** | 208,799 |
| Equity income of affiliated companies (Note 4) | **1,237** | 7,761 |
| Interest expense (Note 10) | **(60,416)** | (33,137) |
| Other income (expense) | **7,466** | (516) |
| Unusual items (Note 15) | **(2,549)** | — |
| **Income from continuing operations before income taxes** | **209,332** | 182,907 |
| Income tax expense (Note 13) | **(83,756)** | (75,996) |
| **Net income from continuing operations** | **125,576** | 106,911 |
| Net loss from discontinued operations (Note 2) | **—** | (4,361) |
| **Net income** | **$ 125,576** | $ 102,550 |
| Net income per common share (dollars) | | |
| Basic, before discontinued operations | **$ 1.50** | $ 1.75 |
| Basic | **$ 1.50** | $ 1.68 |
| Diluted (Note 18) | **$ 1.36** | $ 1.66 |
| **Earnings reinvested in the business at beginning of year** | **$ 110,461** | $ 8,383 |
| Net income for the year | **125,576** | 102,550 |
| Common share dividends | **(21,083)** | — |
| Interest on equity component of convertible subordinated debentures, net of income taxes (Note 8) | **(4,283)** | (472) |
| Premium on stock options exercised | **(156)** | — |
| Prior period adjustment (Note 1) | **(59,139)** | — |
| **Earnings reinvested in the business at end of year** | **$ 151,376** | $ 110,461 |

| Year ended December 31 (thousands of dollars) | 2000 | 1999 |
|---|---|---|
| **Cash generated from (used in)** | | |
| **Operating activities** | | |
| Net income from continuing operations | $ 125,576 | $ 106,911 |
| Items not affecting cash: | | |
| Depreciation, depletion and amortization | 112,691 | 70,166 |
| Future income taxes | 12,664 | 11,642 |
| Other | (8,814) | (10,111) |
| Non-cash working capital changes (see below) | (141,353) | 32,327 |
| | 100,764 | 210,935 |
| **Financing activities** | | |
| Proceeds from issue of common shares (Note 9) | 96 | 239,490 |
| Proceeds from acquisition bank loan | — | 150,000 |
| Repayment of acquisition bank loan | (20,000) | (100,000) |
| Repayment of long-term debt and capital leases | (30,734) | (30,536) |
| Dividends paid to common shareholders | (21,083) | — |
| Premium on stock options issued | (156) | — |
| Interest on convertible debentures, net of taxes | (4,686) | — |
| | (76,563) | 258,954 |
| **Investing activities** | | |
| Purchase of investment (Note 2) | — | (433,223) |
| Purchase of property, plant, equipment and timber | (121,802) | (119,856) |
| Proceeds from sale of property, plant, equipment, investments and other | 2,373 | 13,527 |
| | (119,429) | (539,552) |
| **Increase (decrease) in net cash (short-term indebtedness)** | | |
| From continuing operations | (95,228) | (69,663) |
| From discontinued operations (Note 2) | — | 13,787 |
| **Net cash at beginning of year** | 30,191 | 86,067 |
| **Net cash (short-term indebtedness) at end of year** | $ (65,037) | $ 30,191 |
| **Net cash (short-term indebtedness) comprises** | | |
| Cash | $ 16,693 | $ 18,313 |
| Temporary investments | — | 56,613 |
| Unpresented cheques | (41,452) | (42,401) |
| Operating bank loans | (40,278) | (2,334) |
| | $ (65,037) | $ 30,191 |
| **Non-cash working capital changes** | | |
| Accounts receivable | $ 51,390 | $ 10,073 |
| Income taxes | (93,834) | 63,104 |
| Future income taxes | 13,638 | — |
| Inventories | (1,143) | (28,580) |
| Prepaid expenses | (2,123) | 1,411 |
| Accounts payable and accrued liabilities | (109,281) | (13,681) |
| | $ (141,353) | $ 32,327 |

Interest paid by continuing operations in 2000 was $61,343 (1999 - $38,817)
and income taxes paid were $159,984 (1999 - income taxes recovered $6,844)

## Consolidated Balance Sheet

| As at December 31 (thousands of dollars) | 2000 | 1999 |
|---|---|---|
| **Assets** | | |
| **Current assets** | | |
| Cash | $ 16,693 | $ 18,313 |
| Temporary investments | — | 56,613 |
| Accounts receivable | | |
| Trade | 179,630 | 213,771 |
| Other | 38,244 | 48,689 |
| Income taxes recoverable | 2,972 | — |
| Future income taxes (Note 13) | 27,983 | — |
| Inventories (Note 3) | 453,673 | 450,816 |
| Prepaid expenses | 12,046 | 11,691 |
| Total current assets | 731,241 | 799,893 |
| **Long-term investments** (Note 4) | 74,043 | 69,815 |
| **Property, plant, equipment and timber** (Note 5) | 1,518,444 | 1,384,767 |
| **Deferred charges** (Note 6) | 116,761 | 93,171 |
| | $ 2,440,489 | $ 2,347,646 |

Approved by the Board

R. Laurie Cliff

Director, R.L. Cliff

David Emerson

Director, D.L. Emerson

## Consolidated Balance Sheet

| As at December 31 (thousands of dollars) | 2000 | 1999 |
|---|---|---|
| **Liabilities** | | |
| **Current liabilities** | | |
| Unpresented cheques | $ 41,452 | $ 42,401 |
| Operating bank loans | 40,278 | 2,334 |
| Term bank loan (Note 2) | 175,438 | 175,438 |
| Acquisition bank loan (Note 2) | 30,000 | 50,000 |
| Accounts payable and accrued liabilities | 288,079 | 382,613 |
| Current portion of long-term debt (Note 7.1) | 49,569 | 29,679 |
| Current portion of deferred reforestation | 35,392 | 43,838 |
| Income taxes payable | — | 88,828 |
| Total current liabilities | 660,208 | 815,131 |
| **Long-term liabilities** | | |
| Long-term debt (Note 7.1) | 384,215 | 417,536 |
| Convertible subordinated debentures – liability component (Note 8) | 16,731 | 24,605 |
| Deferred reforestation | 42,386 | 38,802 |
| Post employment benefits (Note 11) | 16,110 | 751 |
| Other liabilities | 6,294 | 9,991 |
| Total long-term liabilities | 465,736 | 491,685 |
| **Future income taxes, net** (Note 13) | 363,858 | 139,058 |
| **Shareholders' Equity** | | |
| Share capital (Note 9) | 657,714 | 657,617 |
| Convertible subordinated debentures – equity component (Note 8) | 138,269 | 130,395 |
| Earnings reinvested in the business | 151,376 | 110,461 |
| Foreign exchange translation adjustment | 3,328 | 3,299 |
| | 950,687 | 901,772 |
| Commitments and contingencies (Note 12) | | |
| Subsequent event (Note 20) | | |
| | $ 2,440,489 | $ 2,347,646 |

## Statement of Segmented Information

| (thousands of dollars) | Net Sales To External Customers | Net Sales To Other Segments | Operating Income | Depreciation, Depletion and Amortization | Net Capital Expenditures | Identifiable Assets |
|---|---|---|---|---|---|---|
| | (Note a) | (Note b) | | | | (Note c) |
| **Year ended December 31, 2000** | | | | | | |
| **Wood Products** | **$ 1,179,649** | **$ 117,807** | **$ 40,914** | **$ 45,617** | **$ 71,620** | **$ 967,094** |
| **Pulp Products** | **667,194** | **—** | **197,398** | **35,181** | **19,764** | **802,330** |
| **Pulp and Specialty Kraft Paper** | **221,888** | **—** | **41,509** | **14,088** | **10,277** | **175,514** |
| **Coastal Operations** | **197,160** | **13,546** | **23,921** | **13,176** | **12,253** | **109,143** |
| **Corporate** | **—** | **—** | **(40,148)** | **4,629** | **7,888** | **386,408** |
| | **$ 2,265,891** | **$ 131,353** | **$ 263,594** | **$ 112,691** | **$ 121,802** | **$ 2,440,489** |
| Year ended December 31, 1999 | | | | | | |
| Wood Products | $ 1,089,873 | $ 56,107 | $ 157,042 | $ 25,599 | $ 63,263 | $ 1,021,969 |
| Pulp Products | 254,161 | — | 32,957 | 18,963 | 18,647 | 808,283 |
| Pulp and Specialty Kraft Paper | 186,433 | — | 11,383 | 12,575 | 25,171 | 177,126 |
| Coastal Operations | 210,731 | 18,964 | 30,617 | 12,499 | 12,247 | 110,632 |
| Corporate | — | — | (23,200) | 530 | 528 | 229,636 |
| | $ 1,741,198 | $ 75,071 | $ 208,799 | $ 70,166 | $ 119,856 | $ 2,347,646 |

| Year ended December 31 (thousands of dollars) | **2000** | 1999 |
|---|---|---|
| **Sales by location of customer** | | |
| Canada | **$ 464,490** | $ 394,038 |
| United States | **1,214,386** | 979,388 |
| Europe | **338,765** | 168,006 |
| Far East and Other | **248,250** | 199,766 |
| | **$ 2,265,891** | $ 1,741,198 |

(a) No single customer accounted for ten per cent or more of the Company's total sales.

(b) Sales to other segments are accounted for at prices which approximate market.

(c) Substantially all of the Company's assets are located in Canada.

### Basis of Presentation of Financial Statements

These financial statements include the accounts of Canfor Corporation (the Company) and its subsidiary companies, hereinafter referred to as "Canfor". Equity investments are accounted for by recording the original investment at cost and subsequently adjusting for its prorated share of post acquisition earnings.

### Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. It is reasonably possible that circumstances may arise which cause actual results to differ from management estimates, however, management does not believe it is likely that such differences will materially affect Canfor's financial position.

Significant areas requiring the use of management estimates are inventory valuations, rates for depreciation, depletion and amortization, and deferred reforestation costs.

### Valuation of Inventories

Inventories of wood products, pulp and kraft paper are valued at the lower of average cost and net realizable value. Logs and chips are valued at average cost or the greater of net realizable value and replacement cost if lower than average cost. Processing materials and supplies are valued at the lower of average cost and replacement cost.

### Temporary Investments

Temporary investments comprise Bankers Acceptances, commercial paper and other short-term instruments and are valued at cost, which approximates fair value.

### Property, Plant, Equipment and Timber

Canfor capitalizes the costs of major replacements, extensions and improvements to plant and equipment, together with related interest incurred during the construction period on major projects.

The rates of depreciation are based upon depreciating the assets over the following estimated productive lives:

| | |
|---|---|
| Buildings | 10 to 50 years |
| Mobile equipment | 3 to 20 years |
| Pulp and kraft paper machinery and equipment | 20 years |
| Sawmill machinery and equipment | 8 to 10 years |
| Logging machinery and equipment | 4 to 20 years |
| Logging roads and bridges | 5 to 20 years |
| Other machinery and equipment | 4 to 20 years |

Depreciation of logging and manufacturing assets is calculated on a unit of production basis.

Depreciation of plant and equipment not employed in logging and manufacturing is calculated on a straight-line basis.

Amortization of logging roads and depletion of timber are calculated on a basis related to the volume of timber harvested.

### Deferred Charges

Software development costs relating to major systems are deferred and amortized over periods not longer than ten years.

### Deferred Reforestation

Canfor accrues the cost of the reforestation required under its timber harvest agreements at the time the timber is harvested.

### Employee Benefit Plans

Canfor has various defined benefit plans providing both pension and other retirement benefits to most of its salaried employees and certain hourly employees not covered by forest industry-union plans. Canfor also provides certain health care benefits to eligible retired employees.

Canfor accrues the costs and related obligations of employee benefit plans using the projected benefit actuarial method prorated on service and management's best estimates of expected plan investment performance, salary escalation and other relevant factors. The difference between costs of employee benefits charged against earnings and Canfor's contributions to the plans is included in deferred charges or post employment benefits obligation on the balance sheet.

For hourly employees covered by forest industry-union defined benefit pension plans, earnings are charged with Canfor's contributions required under the collective agreements.

### Foreign Currency

The majority of Canfor's sales and long-term debt are denominated in foreign currencies. Foreign currencies are translated into Canadian dollars using the temporal method as follows:

- Monetary assets and liabilities at year-end or applicable hedged exchange rates; non-monetary assets and liabilities at historical rates; revenues and expenses at exchange rates prevailing at the time the transaction occurs.
- Exchange gains or losses are reflected in income immediately with the exception of unrealized translation gains or losses related to long-term monetary liabilities hedged by future revenue streams, which are deferred until realized.

Canfor's foreign operations are considered to be self-sustaining and the assets and liabilities are translated using the current rate method. The translation gain or loss is included as a component of shareholders' equity.

### Income Taxes

Canfor accounts for income taxes using the liability method. Under this method, future income tax assets and liabilities are determined based on the temporary differences between the accounting basis and the tax basis of assets and liabilities. These temporary differences are measured using the current tax rates and laws expected to apply when these differences reverse. Future tax benefits, such as capital loss carry-forwards, are recognized to the extent that realization of such benefits is considered more likely than not. The effect on future tax assets and liabilities of a change in income tax rates is recognized in earnings in the period that includes the substantive enactment date.

### Financial Instruments

Where applicable, comments with respect to financial instruments appear in the relevant note. The fair values of financial instruments are only indicated where they differ materially from their carrying value.

## 1. Accounting Policies

The principal accounting policies followed by Canfor are summarized under the caption Summary of Principal Accounting Policies.

*Changes in accounting policies*

Effective January 1, 2000, Canfor adopted, as required, the new recommendations of the Canadian Institute of Chartered Accountants relating to accounting for pensions and other post employment benefits and accounting for income taxes.

The change in accounting for pensions and other post employment benefits, which has been applied prospectively, related principally to accruing the cost of post employment benefits other than pensions over the working lives of the employees. These costs were previously expensed when paid. This change had no material effect on the Company's earnings for the year.

The change in accounting for income taxes, which has been applied retroactively without restatement of prior periods, reflects the tax effect of differences between the book and tax basis of assets and liabilities based on enacted tax rates. Previously, deferred income taxes reflected the tax effect, based on historical tax rates, of revenue and expense items reported for accounting purposes in periods different than for tax purposes. The cumulative effect, as at January 1, 2000, of adopting this new accounting policy was to increase fixed assets by $126.4 million, increase future income tax liabilities (previously described as deferred income taxes) by $185.5 million and reduce retained earnings by $59.1 million.

Effective January 1, 2000, Canfor has also adopted the new recommendations of the Canadian Institute of Chartered Accountants relating to the calculation of earnings per share. The change in calculation of earnings per share primarily relates to the approach used to determine the dilutive effect of stock options. Under the previous method, it was assumed that all outstanding stock options were exercised during the period. Imputed after-tax earnings on the proceeds were added to net income and the number of options exercised was added to the weighted average number of shares for the calculation of diluted earnings per share (formerly referred to as fully diluted earnings per share). The new method assumes that stock options are only exercised when the exercise price is below the average market price of the shares. It also assumes that the Company will use any proceeds to purchase its common shares at their average market price during the period. Consequently, there is no imputed income on the proceeds and weighted average shares are only increased by the difference between the number of options exercised and number of shares purchased by the Company. The effect of adopting this new policy for the year ended December 31, 2000 was to increase diluted earnings per share by $0.04 and the effect of restating the prior year was to increase previously reported diluted earnings per share by $0.05.

## 2. Acquisition and Divestment

On August 26, 1999, the Company entered into an agreement to acquire all the outstanding shares of Northwood Inc. (Northwood) for $635 million. The principal assets of Northwood are located in the Prince George area of British Columbia and include a pulp mill, four sawmills, a plywood mill, long-term forest tenures and the remaining 50 per cent interest in B.C. Chemicals Company and B.C. Chemicals Ltd. not already owned. The consolidated financial statements include the operations of Northwood since the closing of the acquisition on November 23, 1999. The acquisition has been accounted for using the purchase method. The amounts assigned to the net assets and liabilities acquired are based on their estimated fair values as at November 23, 1999 as follows:

| (thousands of dollars) | |
|---|---|
| Net assets acquired | |
| Cash | $ 46,777 |
| Other current assets, net | 58,325 |
| Property, plant and equipment | 469,389 |
| Timber | 259,352 |
| Other assets | 22,673 |
| | 856,516 |
| Less | |
| Long-term debt | 176,337 |
| Other liabilities | 13,258 |
| Deferred income taxes | 31,921 |
| | 221,516 |
| | $ 635,000 |

The acquisition was financed as follows:

| (thousands of dollars) | |
|---|---|
| Issuance of share capital | $ 239,490 |
| Convertible subordinated debentures (Note 8) | 155,000 |
| Acquisition bank loan | 150,000 |
| Cash | 90,510 |
| | $ 635,000 |

Subsequent to the acquisition, the long-term debt assumed was replaced by a short-term bank loan.

On December 31, 1999, Canfor sold its interest in Canwel Distribution Ltd. (CanWel), a wholesale building materials distribution company, for a total net proceeds to Canfor of $6.9 million which resulted in a net loss of $3.4 million. Canfor has accounted for the sale of its joint venture interest as a discontinued operation. Revenues and expenses attributed to CanWel, as well as the loss on disposal, have been aggregated and treated as "loss from discontinued operations" in the Statement of Income and Earnings Reinvested in the Business.

Canfor's results of discontinued operations are as follows:

| (thousands of dollars) | 1999 |
|---|---|
| Net sales | $ 228,170 |
| Costs and expenses | |
| Product cost | 206,517 |
| Depreciation, depletion and amortization | 333 |
| Selling and administration | 20,846 |
| | 227,696 |
| Operating income from discontinued operations | 474 |
| Interest expense | (1,326) |
| Income tax expense | (73) |
| Loss before loss on disposal of investment | (925) |
| Loss on disposal of investment | (3,436) |
| Net loss from discontinued operations | $ (4,361) |

The cash provided by (used for) discontinued operations is as follows:

| (thousands of dollars) | 1999 |
|---|---|
| Net loss from discontinued operations | $ (4,361) |
| Items not involving cash | |
| Depreciation, depletion and amortization | 333 |
| Other | 3,775 |
| Net change in non-cash working capital | (4,765) |
| Operating activities | (5,018) |
| Investing activities | |
| Disposition of bank indebtedness | 19,716 |
| Other | (911) |
| Increase in net cash of discontinued operations | $ 13,787 |

### 3. Inventories

| (thousands of dollars) | 2000 | 1999 |
|---|---|---|
| Wood products, pulp and kraft paper | **$ 251,916** | $ 227,628 |
| Logs and chips | **133,125** | 161,042 |
| Processing materials and supplies | **68,632** | 62,146 |
| | **$ 453,673** | $ 450,816 |

### 4. Long-Term Investments

| (thousands of dollars) | 2000 | 1999 |
|---|---|---|
| Equity investments* | | |
| Cost of common shares | **$ 45,135** | $ 45,135 |
| Accumulated equity income | **1,275** | 1,277 |
| Preferred shares | | |
| Seaboard Shipping Company Limited** | **11,500** | 11,667 |
| Other deposits, loans and investments | **16,133** | 11,736 |
| | **$ 74,043** | $ 69,815 |

*Canfor owns a one-third interest in Lakeland Mills Ltd. and The Pas Lumber Company Ltd. which own sawmills in the Prince George, British Columbia region (Note 12). The combined assets and liabilities of the two mills are $125.4 million (1999 - $128.2 million) and $71.2 million (1999 - $74.4 million), respectively.

**During the year, Seaboard Shipping Company Limited issued further preferred shares in the amount of $1,937,000 (1999 - $2,751,000), and subsequently redeemed preferred shares in the amount of $2,104,000 (1999 - $1,973,000).

### 5. Property, Plant, Equipment and Timber

| December 31, 2000 (thousands of dollars) | Cost | Accumulated Depreciation and Depletion | Net Book Value |
|---|---|---|---|
| Land | **$ 14,633** | **$ —** | **$ 14,633** |
| Pulp and kraft paper mills | **1,089,047** | **411,845** | **677,202** |
| Wood products mills | **510,056** | **265,855** | **244,201** |
| Logging buildings and equipment | **67,105** | **51,177** | **15,928** |
| Logging roads and bridges | **214,791** | **151,676** | **63,115** |
| Other equipment and facilities | **108,635** | **52,464** | **56,171** |
| Timber | **481,542** | **34,348** | **447,194** |
| | **$ 2,485,809** | **$ 967,365** | **$ 1,518,444** |

Included in the above are assets under construction in the amount of $24,298,000 (1999 - $25,137,000) which are not being depreciated.

| December 31, 1999 (thousands of dollars) | Cost | Accumulated Depreciation and Depletion | Net Book Value |
|---|---|---|---|
| Land | $ 13,044 | $ — | $ 13,044 |
| Pulp and kraft paper mills | 1,032,486 | 370,387 | 662,099 |
| Wood products mills | 480,732 | 263,933 | 216,799 |
| Logging buildings and equipment | 69,340 | 51,025 | 18,315 |
| Logging roads and bridges | 197,755 | 139,256 | 58,499 |
| Other equipment and facilities | 99,137 | 43,241 | 55,896 |
| Timber | 388,585 | 28,470 | 360,115 |
| | $ 2,281,079 | $ 896,312 | $ 1,384,767 |

## 6. Deferred Charges

| (thousands of dollars) | 2000 | 1999 |
|---|---|---|
| Prepaid pension benefits (Note 11) | **$ 61,436** | $ 54,636 |
| Unrealized foreign exchange loss on long-term debt | **43,076** | 30,099 |
| Software development costs | **12,196** | 8,202 |
| Debt issue and other expenses | **53** | 234 |
| | **$ 116,761** | $ 93,171 |

Deferred charges expensed during the year amounted to $6,060,000 (1999 - $5,220,000).

## 7. Long-Term Debt

### 7.1 Summary of Long-Term Debt

| (thousands of dollars) | 2000 | 1999 |
|---|---|---|
| Privately placed senior notes | | |
| $60,000 U.S. (1999 - $80,000 U.S.) interest at 7.75%, repayable in five equal annual installments commencing June 1, 1999 | **$ 90,012** | $ 115,464 |
| $50,000 U.S. interest at 7.73%, repayable in four equal annual installments commencing June 28, 2001 | **75,010** | 72,165 |
| $125,000 U.S. interest at 8.24%, repayable in four equal annual installments commencing September 1, 2004 | **187,525** | 180,412 |
| $50,000 U.S. interest at 6.82%, repayable in five equal semi-annual installments commencing April 1, 2005 | **75,010** | 72,165 |
| Other loans | **4,000** | 4,250 |
| Capital leases | **2,227** | 2,759 |
| | **433,784** | 447,215 |
| Less current portion of long-term debt: | | |
| Notes and agreements payable | **49,007** | 29,116 |
| Amounts due on capital leases | **562** | 563 |
| | **49,569** | 29,679 |
| | **$ 384,215** | $ 417,536 |

The agreements relative to the privately placed senior notes contain provisions limiting the amount of indebtedness that the Company and its designated subsidiaries can incur and the amount of dividends payable on its common shares. Under these agreements, the Company and its designated subsidiaries can presently incur $377.6 million additional long-term debt (at December 31, 1999 - $332.0 million additional long-term debt could be incurred) and pay up to $80.7 million or $0.99 per share in dividends on its common shares (1999 -dividends up to $14.5 million or $0.18 per share could be paid).

### 7.2 Fair Value

The fair value of all long-term debt at December 31, 2000 approximated carrying value.

### 7.3 Debt Repayments

Repayments on long-term debt and capital leases for the next five years are as follows:

| (thousands of dollars) | |
|---|---|
| 2001 | $ 49,569 |
| 2002 | 49,778 |
| 2003 | 49,030 |
| 2004 | 65,837 |
| 2005 | 77,301 |

### 7.4 Bank Loans

The Company has $68.2 million of unused bank operating lines of credit, after deducting unpresented cheques, as at December 31, 2000 (1999 - $125.3 million).

## 8. Convertible Subordinated Debentures

On November 23, 1999, the Company issued $155.0 million of unsecured convertible subordinated debentures as part of the purchase price payable by the Company for all the outstanding shares of Northwood Inc. (Note 2). The debentures bear interest at 6.25 per cent per annum, payable semi-annually, and mature on November 23, 2006. The debentures are convertible, at the holder's option, into common shares of the Company at a conversion price of $13.20 per share. The holders were required to hold the debentures for 180 days after issue. Upon a change of control of the Company, each holder may require the Company to purchase the holder's debentures at 100 per cent of principal plus accrued and unpaid interest. After three years, the debentures are redeemable at the option of the Company at 100 per cent of principal plus accrued and unpaid interest provided that from the third year to the fifth year the debentures may only be redeemed if the 20 day weighted average closing price of the Company's common shares exceeds 120 per cent of the conversion price. The Company has the option to satisfy its obligation to pay any portion of the applicable principal and interest, or redemption or purchase price, by delivery of shares to the trustee and subsequent sale of such shares and delivery to the holders of cash equal to the principal and interest, or redemption or purchase price, of the debentures.

The convertible subordinated debentures are being accounted for in accordance with their substance and are presented in the financial statements in their component parts, measured at their respective fair values at the time of issue. The liability component represents the net present value of the outstanding interest payments to November 23, 2002, the first date the Company has the option to retire the debentures through the issue of shares. The difference between the debt component and the face value of the debentures is classified as equity. The equity component of the debentures is increased over the term to the full face value by charges to retained earnings and a corresponding reduction in interest expense.

In computing basic earnings per share, the charges to retained earnings are deducted from net earnings to arrive at net earnings attributable to common shareholders.

The fair value of the convertible subordinated debentures at December 31, 2000 approximated carrying value.

## 9. Share Capital

### Authorized

10,000,000 preferred shares, with a par value of $25 each
1,000,000,000 common shares without par value

| (thousands of dollars) | 2000 | 1999 |
|---|---|---|
| Issued<br>81,088,847 common shares (1999 - 81,078,447) | **$ 657,714** | $ 657,617 |

During the year, the Company issued 10,400 shares for net proceeds of $96,200. During 1999, the Company issued 22,727,273 common shares for net proceeds of $239,500,000 for use in the acquisition of Northwood Inc. (Note 2).

### Stock Options

The Company has a share option agreement and a stock option performance plan for selected officers and senior managers. The share option plans provide for the issuance of up to a maximum of 5,300,000 common shares (1999 - 5,300,000), subject to shareholders' approval, at an exercise price equal to the market price of the Company's common shares on the date of grant. The option period for the share option agreement is four years and five years for the stock option performance plan. However, under both plans there are various criteria that limit the amount of options exercisable during each option year within the option period. A summary of the status of the two plans as of December 31, 2000 and 1999, and changes during the years ending on those dates, is presented below:

| | **2000** | | 1999 | |
|---|---|---|---|---|
| | **Shares** | **Weighted-Average Exercise Price** | Shares | Weighted-Average Exercise Price |
| Outstanding at the beginning of the year | **2,655,000** | **$ 9.14** | 2,535,000 | $ 9.23 |
| Granted | **1,400,000** | **16.13** | 120,000 | 7.30 |
| Exercised | **(31,400)** | **8.32** | — | — |
| Outstanding at the end of the year | **4,023,600** | **$ 11.58** | 2,655,000 | $ 9.14 |

The weighted average remaining contractual life of the options outstanding at December 31, 2000 was 2.4 years (1999 - 3.5 years) and the number of options exercisable as at December 31, 2000 was 705,900 (1999 - 658,750).

### Employee Share Purchase Plan

In 1999, Canfor established a share purchase plan available to all employees. Purchases of common shares under this plan occur on the open market. Under the plan the employees can purchase up to ten per cent of their base salary or wage. Canfor will match 30 per cent of the first five per cent of the amount contributed by the employee and pay the share purchase plan brokerage fees.

## 10. Interest Expense

| (thousands of dollars) | Long-Term | Short-Term | Total |
|---|---|---|---|
| December 31, 2000 | | | |
| Total interest cost | **$ 36,277** | **$ 26,761** | **$ 63,038** |
| Less: Interest income | — | **1,695** | **1,695** |
| Interest capitalized | — | **927** | **927** |
| | **$ 36,277** | **$ 24,139** | **$ 60,416** |
| December 31, 1999 | | | |
| Total interest cost | $ 37,572 | $ 5,069 | $ 42,641 |
| Less: Interest income | 4 | 9,203 | 9,207 |
| Interest capitalized | — | 297 | 297 |
| | $ 37,568 | $ (4,431) | $ 33,137 |

## 11. Employee Future Benefits

Information about Canfor's defined benefit plans for 2000, in aggregate, is as follows:

| (thousands of dollars) | Pension Benefit Plans | Other Benefit Plans |
|---|---|---|
| Plan assets, at fair market value | | |
| Beginning of year | $ 389,864* | $ — |
| Actual return on plan assets | 51,374 | — |
| Canfor contributions | 1,078 | 1,454 |
| Employee contributions | 1,101 | — |
| Benefit payments | (21,328) | (1,454) |
| End of year | $ 422,089 | $ — |
| Pension and other retirement benefit obligations | | |
| Beginning of year | $ 284,853* | $ 40,715 |
| Interest cost | 20,259 | 2,981 |
| Current service cost – Canfor | 9,252 | 1,135 |
| Current service cost – employees | 1,101 | — |
| Benefit payments | (21,328) | (1,454) |
| Actuarial loss | 3,552 | — |
| End of year | $ 297,689 | $ 43,377 |
| Plan surplus (deficit) | $ 124,400 | $ (43,377) |

* restated to reflect new CICA standard (Note 1)

| | Pension Benefit Plans | Other Benefit Plans |
|---|---|---|
| Surplus (deficit) | | |
| Plan surplus (deficit) | $ 124,400 | $ (43,377) |
| Unamortized (surplus) deficit on adoption of new pension plan accounting policy (Note 1) | (46,550) | 29,650 |
| Unamortized excess of actual investment gains over expected actuarial return | (18,797) | — |
| | 59,053 | (13,727) |
| Post employment obligations recognized in the Consolidated Balance Sheet | (2,383) | (13,727) |
| Prepaid pension benefits (Note 6) | $ 61,436 | $ — |

Included in the above pension and other retirement benefit obligations and fair value of plan assets at year-end are the following amounts in respect of plans that are not fully funded:

| (thousands of dollars) | Pension Benefit Plans | Other Benefit Plans |
|---|---|---|
| Pension and other retirement benefit obligations | $ 24,598 | $ 43,377 |
| Fair value of plan assets | 14,435 | — |
| Plan deficit | $ (10,163) | $ (43,377) |

Canfor's expense (income) for company-sponsored benefit plans is:

| (thousands of dollars) | Pension Benefit Plans | Other Benefit Plans |
|---|---|---|
| Interest cost | $ 20,259 | $ 2,981 |
| Current service cost | 9,252 | 1,135 |
| Expected return on plan assets | (29,268) | — |
| Amortization of (surplus) deficit on adoption of new pension plan accounting policy | (3,734) | 1,965 |
| Other | 902 | — |
| Expense (income) recognized in the current year | $ (2,589) | $ 6,081 |

In addition to the above, Canfor's expense for forest industry-union defined benefit pension plans, which is equal to contributions made in the period, amounted to $16,742,000 in 2000.

The actuarial assumptions used in measuring Canfor's benefit plan obligations are as follows:

| (weighted-average assumptions as of December 31, 2000): | Pension Benefit Plans | Other Benefit Plans |
|---|---|---|
| Discount rate | 7.25% | 7.25% |
| Rate of compensation increase | 3.00% | n/a |
| Expected long-term rate of return on plan assets | 7.70% | n/a |

For measurement purposes, annual rates of increase in the per capita cost of covered health care benefits of 4.4 per cent and 5.5 per cent, depending on the employee group, were assumed for 2001. The rates were assumed to decrease annually to 3.2 per cent and 4.4 per cent respectively by 2004 and remain at that level thereafter.

**12. Commitments and Contingencies**

The future minimum lease payments under operating leases are as follows:

| (thousands of dollars) | |
|---|---|
| 2001 | $ 18,161 |
| 2002 | 13,740 |
| 2003 | 8,785 |
| 2004 | 5,478 |
| 2005 | 3,256 |
| Thereafter | 2,766 |
| Total minimum lease payments | $ 52,186 |

Canfor's investment in Lakeland Mills Ltd. and The Pas Lumber Company Ltd. is pledged as security for the bank debt of those mills.

## 13. Income Taxes

The tax effects of the significant components of temporary differences that give rise to future income tax assets and liabilities are as follows:

| (thousands of dollars) | 2000 Current | 2000 Long Term |
|---|---|---|
| Future income tax assets | | |
| Capital loss carry forward | $ – | $ 33,741 |
| Accruals not currently deductible | 25,038 | 15,972 |
| Post employment benefits | – | 8,454 |
| Other | 2,945 | 2,918 |
| | $ 27,983 | $ 61,085 |
| Future income tax liabilities | | |
| Depreciable capital assets | $ – | $ (401,148) |
| Deferred pension costs | – | (23,589) |
| Other | – | (206) |
| | $ – | $ (424,943) |
| Future income taxes, net | $ 27,983 | $ (363,858) |

The components of income tax expense are as follows:

| (thousands of dollars) | 2000 | 1999 |
|---|---|---|
| Current | $ 70,896 | $ 60,924 |
| Future | 12,664 | 11,642 |
| Affiliates | 196 | 3,430 |
| | $ 83,756 | $ 75,996 |

The reconciliation of income taxes calculated at the statutory rate to the actual income tax provision is as follows:

| (thousands of dollars) | 2000* | 1999* |
|---|---|---|
| Accounting net earnings before income taxes | $ 209,332 | $ 182,907 |
| Income tax expense at statutory tax rate | 82,686 | 72,248 |
| Large corporation tax | 2,796 | 2,317 |
| Amounts not deductible for tax purposes and other tax adjustments | (1,726) | 1,431 |
| Income tax expense | $ 83,756 | $ 75,996 |
| Effective income tax rate | 40.0% | 41.5% |

*The 1999 figures were calculated using the tax allocation method (deferred taxes). The 2000 figures have been prepared using the liability method (future taxes) (Note 1).

## 14. Related Party Transactions

Canfor markets the pulp production of Howe Sound Pulp and Paper Limited (Note 17) for which it received commissions totaling $3.2 million in 2000 (1999 - $3.0 million) under the terms of its agency sales agreement. Canfor provides management, fibre supply and other services to Howe Sound Pulp and Paper Limited at cost, for which it received $1.9 million in fees for 2000 (1999 - $2.4 million). Canfor also sells logs to Howe Sound Pulp and Paper Limited, which amounted to $16.1 million in 2000 (1999 - $23.0 million).

Canfor purchases pulp chips and lumber from Lakeland Mills Ltd. and The Pas Lumber Company Ltd. at market prices. During 2000, Canfor purchased $13.7 million in pulp chips and $14.4 million in lumber (1999 - $12.6 million and $16.5 million respectively).

## 15. Unusual Items

| (thousands of dollars) | 2000 | 1999 |
|---|---|---|
| Plant closure | $ 3,100 | $ — |
| Gain on sale of patent | (551) | — |
| | $ 2,549 | $ — |

## 16. Financial Instruments

Interest Rate Risk

At December 31, 1999, Canfor had outstanding interest rate swaps, which were acquired with Northwood (Note 2), on a total of $125 U.S. million of long-term debt. These swaps converted fixed rate interest into floating rate interest until June 30, 2005. In early 2000, the fixed rate debt was converted to floating rate debt and the interest rate swap was terminated.

Currency Risk

*Currency Swaps*

Canfor has cross currency swaps totaling $125 U.S. million which effectively fix, at an exchange rate of $1.00 U.S. equals $1.4035 Cdn., the amount of Canadian dollars required to repay its U.S. dollar term loan of that amount. The $125 U.S. million notional amount under the currency swap agreements will reduce by $25 U.S. million per year, beginning in 2001, until the final exchange date of June 30, 2005. The fair value of these swaps at December 31, 2000 is $3.7 million.

*Forward Exchange Contracts*

A significant portion of Canfor's income from operations is generated from sales denominated in United States dollars. In order to manage some of the risk associated with fluctuating exchange rates, Canfor enters into forward exchange contracts. At December 31, 2000, these contracts totaled $40 U.S. million (1999 - $25 U.S. million) and were fixed at rates ranging from 1.5147 to 1.5496 through June 2001. The unrecognized gain of $1.4 million as at December 31, 2000 (1999 - $0.7 million) has been deferred and will offset foreign exchange on U.S. dollar revenues in the contract period.

## 17. Howe Sound Pulp and Paper Limited (Note 20)

During 1998, Canfor entered into discussions with Oji Paper Co., Ltd., 50 per cent co-venturer in Howe Sound Pulp and Paper Limited, regarding the restructuring of the joint venture. Canfor has determined that it will not recover its investment in Howe Sound Pulp and Paper Limited and, accordingly, has written it off. Consequently, Canfor does not reflect its share of the results of Howe Sound Pulp and Paper Limited in its accounts. Management continues to believe there is no further exposure to loss from this investment.

Financial information reflecting 100 per cent of the joint venture's operations is presented below:

a. Statement of Net Income of Howe Sound Pulp and Paper Limited

| Year ended December 31 (thousands of dollars) | 2000 | 1999 |
|---|---|---|
| Net sales | $ 481,572 | $ 381,895 |
| Costs and expenses | 386,550 | 358,846 |
| Operating income | 95,022 | 23,049 |
| Interest expense | (31,882) | (30,148) |
| Income (loss) before income taxes | 63,140 | (7,099) |
| Income tax expense | (2,666) | (2,363) |
| Net income (loss) | $ 60,474 | $ (9,462) |

b. Statement of Financial Position of Howe Sound Pulp and Paper Limited

| Year ended December 31 (thousands of dollars) | 2000 | 1999 |
|---|---|---|
| Assets | | |
| Current assets | $ 196,085 | $ 147,421 |
| Fixed assets | 957,075 | 988,024 |
| Other assets | 84,382 | 92,395 |
| | $ 1,237,542 | $ 1,227,840 |
| Liabilities* | | |
| Current liabilities | $ 81,412 | $ 106,286 |
| Long-term debt | 669,742 | 697,222 |
| Other liabilities | 1,791 | 209 |
| Equity | 484,597 | 424,123 |
| | $ 1,237,542 | $ 1,227,840 |

* The liabilities of Howe Sound Pulp and Paper Limited are non-recourse to Canfor.

c. Statement of Changes in Cash Position of Howe Sound Pulp and Paper Limited

| Year ended December 31 (thousands of dollars) | 2000 | 1999 |
|---|---|---|
| Operating | | |
| Net income (loss) | $ 60,474 | $ (9,462) |
| Adjustments for non-cash items: | | |
| Depreciation, depletion and amortization | 45,584 | 47,475 |
| Other operating items | 4,825 | 11,397 |
| | 110,883 | 49,410 |
| Financing | | |
| Repayment of long-term debt | (24,593) | (12,134) |
| Investing | (14,657) | (14,556) |
| Increase in net cash for year | $ 71,633 | $ 22,720 |

d. Howe Sound Pulp and Paper Limited has not recognized the tax benefit of $268,194,000 (1999 - $335,829,000) accounting losses in its financial statements. A further $105,977,000 (1999 - $103,782,000) of allowable capital losses for accounting purposes has not been recognized in its financial statements.

**18. Earnings Per Share**

Basic earnings per share are based on the weighted average number of common shares outstanding during the period. Diluted earnings per share are based on the weighted average number of common shares, convertible debentures and stock options outstanding at the beginning of or granted during the period.

| (thousands of dollars, except per share figures) | Net Earnings | Weighted Average Shares | Earnings Per Share |
|---|---|---|---|
| **2000** | | | |
| Net income | $ 125,576 | | |
| Less interest on equity component of convertible debentures, net of taxes | (4,283) | | |
| Income available to common shareholders – Basic earnings per share | $ 121,293 | 81,086,831 | $ 1.50 |
| Add back interest on equity and liability components of convertible debentures | 5,380 | 11,742,424 | |
| Stock options granted | — | 192,750 | |
| Diluted earnings per share | $ 126,673 | 93,022,005 | $ 1.36 |

| (thousands of dollars, except per share figures) | Net Earnings | Weighted Average Shares | Earnings Per Share |
|---|---|---|---|
| 1999 | | | |
| Net income | $ 102,550 | | |
| Less interest on equity component of convertible debentures, net of taxes | (472) | | |
| Income available to common shareholders – Basic earnings per share | $ 102,078 | 60,779,568 | $ 1.68 |
| Add back interest on equity and liability components of convertible debentures | 1,093 | 1,251,242 | |
| Stocks options granted | — | 126,035 | |
| Diluted earnings per share | $ 103,171 | 62,156,845 | $ 1.66 |

The following stock options have not been included in the calculation of diluted earnings per share because their exercise price was higher than the average market price of the Company's common shares during the period:

| | Options to Purchase | Exercise Price |
|---|---|---|
| **2000** | **309,895** | **$ 15.80** |
| | **38,750** | **$ 18.75** |
| 1999 | — | — |

Also excluded from the calculation of diluted earnings per share are the following performance-based stock options which may only be exercised after the market value of the Company's common shares has exceeded pre-determined prices:

| | Options to Purchase | Exercise Price |
|---|---|---|
| **2000** | **78,750** | **$ 7.30** |
| | **1,813,950** | **$ 9.25** |
| | **933,750** | **$ 15.80** |
| | **116,250** | **$ 18.75** |
| 1999 | 78,750 | $ 7.30 |
| | 1,813,950 | $ 9.25 |

### 19. Comparative Figures

Certain prior year's figures have been restated to conform to the 2000 presentation.

### 20. Subsequent Event

On February 7, 2001, Canfor and Oji Paper Co., Ltd., its 50 per cent co-venturer in the Howe Sound Pulp and Paper Limited joint venture, announced that Howe Sound Pulp and Paper Limited will be reorganized as a limited partnership. The reorganization is primarily designed to enhance the long-term economic viability of the joint venture. Canfor will strengthen its fibre supply commitments with the partnership and make payments to a maximum of approximately $118 million that will be used to reduce the long-term debt of Howe Sound Pulp and Paper Limited assumed by the partnership. The partnership will carry on the existing operations of Howe Sound Pulp and Paper Limited. As a result of the reorganization, Canfor will obtain access to tax losses of approximately $620 million which will be available to reduce Canfor's future taxable income.

Canfor wrote off its investment in the joint venture in 1998 and no longer reflects its share of the joint venture's results in its earnings. Canfor's method of accounting for its interest in the partnership will not change as a result of the reorganization.

## Subsidiary Companies
(Wholly Owned)

### Active

Canadian Forest Products Ltd.

Canfor Europe

Canfor U.S.A. Corporation

Howe Sound Transportation Company Limited

317231 British Columbia Ltd.

B.C. Chemicals Ltd.

Canfor Wood Products Marketing Ltd.

Canfor Pulp and Paper Marketing Ltd.

Canfor Panel and Fibre Marketing Ltd.

Northwood Properties Limited

Northwood Waferboard Limited

Nanika Timber Limited

Eastline Cedar Ltd.

### Inactive

Eburne Sawmills Limited

Canfor Hong Kong Corporation

Stoney Creek Pine Ltd.

Willowcale Storage Inc.

3423182 Canada Inc.

Canfor Japan Corporation

Canfor Limited

Genus Resource Management Technologies Inc. (incorporated December 15, 2000 and inactive until January 1, 2001)

## Joint Ventures
(Proportionately Consolidated)

Canfor Georgia-Pacific Japan Corporation (50 per cent interest)

## Other Joint Ventures

Howe Sound Pulp and Paper Limited (50 per cent interest) (Note 17)

## Investments
(Equity Accounted)

Lakeland Mills Ltd.

The Pas Lumber Company Ltd.

Vernon Seed Orchard Co.

Kyahwood Forest Products

Chunzoolh Forest Products
– sold effective July 1, 2000

Chunzoolh Forest Products Ltd.
– sold effective July 1, 2000

## Definitions of Selected Financial Terms

**Net Income per Common Share**
is calculated as described in Note 18 to the Consolidated Financial Statements.

**Cash Flow from Operations per Common Share**
is the cash flow from operations for the year, before interest and income tax, divided by the weighted average number of common shares outstanding during the year.

**Common Shareholders' Equity per Common Share**
is the shareholders' equity, including the equity component of convertible subordinated debentures, at the end of the year, divided by the number of common shares outstanding at the end of the year plus the number of common shares exchangeable for the convertible subordinated debentures.

**Capital Employed**
consists of the funds invested or retained in Canfor in the form of shares or liabilities. It is composed of unpresented cheques, current bank loans (net of cash and temporary investments), current portion of long-term debt, long-term debt, future income taxes arising from temporary differences and shareholders' equity. Long-term liabilities such as deferred reforestation costs, unfunded pension and post employment benefits and unrealized foreign exchange losses on long-term debt are specifically excluded because they do not represent borrowed funds or funds invested by shareholders.

**Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA)**
represents operating income plus depreciation, depletion and amortization.

**Net Debt**
is total debt less cash and temporary investments.

**Return on Assets**
is equal to net income plus interest, after tax, divided by the average of the total assets at the beginning and end of the year.

**Return on Capital Employed**
is equal to net income plus interest, after tax, divided by the average of the capital employed during the year.

**Return on Common Shareholders' Equity**
is equal to net income for the year, divided by the average of total shareholders' equity at the beginning and end of the year.

## Canfor Corporation – 2000 Selected Quarterly Financial Information

| | 1st Qtr* | 2nd Qtr | 3rd Qtr | 4th Qtr | Year Ended Dec. 31, 2000 |
|---|---|---|---|---|---|
| | | (unaudited) | | | (audited) |
| **Sales and income** (millions of dollars) | | | | | |
| **Net sales** | $ 618.1 | $ 581.8 | $ 558.2 | $ 507.8 | $ 2,265.9 |
| Manufacturing and product costs | 475.1 | 470.8 | 459.1 | 417.1 | 1,822.1 |
| Depreciation, depletion and amortization | 28.3 | 27.1 | 28.5 | 28.8 | 112.7 |
| Selling and administration | 15.0 | 17.3 | 15.3 | 19.9 | 67.5 |
| Equity (income) loss of affiliated companies | (2.4) | (0.6) | 0.4 | 1.4 | (1.2) |
| Interest expense | 14.0 | 16.5 | 15.2 | 14.7 | 60.4 |
| Other income | (0.8) | (5.5) | (0.9) | (0.3) | (7.5) |
| Unusual items | — | — | — | 2.5 | 2.5 |
| **Income before income taxes** | 88.9 | 56.2 | 40.6 | 23.7 | 209.4 |
| Income tax expense | (35.5) | (24.1) | (16.5) | (7.7) | (83.8) |
| **Net income** | $ 53.4 | $ 32.1 | $ 24.1 | $ 16.0 | $ 125.6 |
| **Per common share** (dollars) | | | | | |
| Basic | $ 0.64 | $ 0.39 | $ 0.28 | $ 0.19 | $ 1.50 |
| Diluted | 0.58 | 0.35 | 0.26 | 0.18 | 1.36 |
| **Cash generated from (used in)** (millions of dollars) | | | | | |
| Operating activities | $ (65.3) | $ 38.6 | $ 102.7 | $ 24.8 | $ 100.8 |
| Financing activities | | | | | |
| Long-term debt | (0.1) | (50.4) | (0.1) | (0.1) | (50.7) |
| Dividends paid | (5.3) | (5.2) | (5.3) | (5.3) | (21.1) |
| Other | — | (2.4) | — | (2.4) | (4.8) |
| | (5.4) | (58.0) | (5.4) | (7.8) | (76.6) |
| Investing activities | | | | | |
| Property, plant, equipment and timber | (30.3) | (33.5) | (30.5) | (27.5) | (121.8) |
| Other | (0.1) | 5.7 | 1.5 | (4.7) | 2.4 |
| | (30.4) | (27.8) | (29.0) | (32.2) | (119.4) |
| **Increase (decrease) in net cash from continuing operations** | $ (101.1) | $ (47.2) | $ (68.3) | $ (15.2) | $ (95.2) |
| **Summary of consolidated shipments** (unaudited) | | | | | |
| Logs – 000 $m^3$ | 301.7 | 384.8 | 473.5 | 414.1 | 1,574.1 |
| Lumber – MMfbm | | | | | |
| Canfor produced | 498.1 | 593.2 | 512.2 | 589.5 | 2,193.0 |
| Other producers | 126.5 | 88.1 | 83.0 | 78.2 | 375.8 |
| Total Lumber | 624.6 | 681.3 | 595.2 | 667.7 | 2,568.8 |
| Plywood – 000 Msf 3/8" basis | 48.0* | 35.4* | 39.2 | 40.6 | 163.2 |
| Pulp – 000 mt | | | | | |
| Canfor produced | | | | | |
| Pulp segment | 229.1 | 186.4 | 200.2 | 173.9 | 789.6 |
| Pulp and Specialty Kraft Paper segment | 47.0 | 42.0 | 41.9 | 32.0 | 162.9 |
| Marketed on behalf of HSPP** | 87.0 | 87.5 | 86.1 | 64.1 | 324.7 |
| Total Pulp | 363.1 | 315.9 | 328.2 | 270.0 | 1,277.2 |
| Kraft paper – 000 mt | 27.6 | 27.3 | 25.7 | 25.2 | 105.7 |

* Restated

** Howe Sound Pulp and Paper Limited, herein referred to as HSPP.

## Canfor Corporation – 1999 Selected Quarterly Financial Information

| | 1st Qtr* | 2nd Qtr | 3rd Qtr | 4th Qtr | Year Ended Dec. 31, 1999 |
|---|---|---|---|---|---|
| | | (unaudited) | | | (audited) |
| **Sales and income** (millions of dollars) | | | | | |
| **Net sales** | $368.6 | $444.7 | $452.5 | $ 475.4 | $1,741.2 |
| Manufacturing and product costs | 311.0 | 355.8 | 356.2 | 391.3 | 1,414.3 |
| Depreciation, depletion and amortization | 14.1 | 15.6 | 17.5 | 23.0 | 70.2 |
| Selling and administration | 10.6 | 12.2 | 12.6 | 12.5 | 47.9 |
| Equity (income) loss of affiliated companies | (0.9) | (2.3) | (2.5) | (2.1) | (7.8) |
| Interest expense | 8.8 | 8.4 | 8.2 | 7.8 | 33.2 |
| Other income | — | 0.2 | — | 0.3 | 0.5 |
| Unusual items/discontinued operations | 0.6 | (0.6) | (0.1) | 4.4 | 4.3 |
| **Income before income taxes** | 24.4 | 55.4 | 60.6 | 38.2 | 178.6 |
| Income tax expense | (10.9) | (23.1) | (25.4) | (16.6) | (76.0) |
| **Net income** | $ 13.5 | $ 32.3 | $ 35.2 | $ 21.6 | $ 102.6 |
| **Per common share** (dollars) | | | | | |
| Basic | $ 0.23 | $ 0.55 | $ 0.61 | $ 0.29 | $ 1.68 |
| Diluted | 0.23 | 0.55 | 0.60 | 0.32 | 1.66 |
| **Cash generated from (used in)** (millions of dollars) | | | | | |
| Operating activities | $ (43.8) | $116.4 | $111.3 | $ 27.0 | $ 210.9 |
| Financing activities | | | | | |
| Long-term debt | (0.8) | (29.5) | (0.1) | 49.9 | 19.5 |
| Dividends paid | — | — | — | — | — |
| Other | — | — | — | 239.5 | 239.5 |
| | (0.8) | (29.5) | (0.1) | 289.4 | 259.0 |
| Investing activities | | | | | |
| Property, plant, equipment and timber | (7.1) | (24.3) | (48.2) | (40.3) | (119.9) |
| Other | 0.7 | (3.0) | (4.4) | (413.0) | (419.7) |
| | (6.4) | (27.3) | (52.6) | (453.3) | (539.6) |
| **Increase (decrease) in net cash from continuing operations** | $ (51.0) | $ 59.6 | $ 58.6 | $(136.9) | $ (69.7) |
| **Summary of consolidated shipments** (unaudited) | | | | | |
| Logs – 000 m³ | 314.6 | 552.5 | 506.3 | 386.3 | 1,759.7 |
| Lumber – MMfbm | | | | | |
| Canfor produced | 305.6 | 425.2 | 353.9 | 349.1 | 1,433.8 |
| Other producers | 137.2 | 112.8 | 132.4 | 154.7 | 537.1 |
| Total Lumber | 442.8 | 538.0 | 486.3 | 503.8 | 1,970.9 |
| Plywood – 000 Msf 3/8" basis | — | — | — | 19.2 | 19.2 |
| Pulp – 000 mt | | | | | |
| Canfor produced | | | | | |
| Pulp segment | 75.7 | 66.8 | 79.1 | 152.8 | 374.4 |
| Pulp and Specialty Kraft Paper segment | 45.7 | 45.8 | 46.1 | 36.7 | 174.3 |
| Marketed on behalf of HSPP | 79.6 | 87.4 | 87.7 | 74.7 | 329.4 |
| Total Pulp | 201.0 | 200.0 | 212.9 | 264.2 | 878.1 |
| Kraft paper – 000 mt | 28.4 | 25.8 | 26.2 | 22.3 | 102.7 |

* Restated

| | 2000 | 1999 | 1998 | 1997 | 1996 |
|---|---|---|---|---|---|
| **Sales and income** (millions of dollars) | | | | | |
| **Net sales** | **$ 2,265.9** | $ 1,741.2 | $ 1,424.7 | $ 1,553.5 | $ 1,500.8 |
| Manufacturing and product costs | **1,822.1** | 1,414.3 | 1,260.1 | 1,359.7 | 1,312.3 |
| Depreciation, depletion and amortization | **112.7** | 70.2 | 65.2 | 67.1 | 69.7 |
| Selling and administration | **67.5** | 47.9 | 59.6 | 63.7 | 60.7 |
| Equity (income) loss of affiliated companies | **(1.2)** | (7.8) | 5.6 | (0.7) | (1.6) |
| Interest expense | **60.4** | 33.2 | 38.0 | 34.2 | 36.1 |
| Other (income) expense | **(7.5)** | 0.5 | (1.4) | (3.1) | (15.8) |
| Unusual items | **2.5** | — | 38.0 | 39.3 | — |
| **Income (loss) from continuing operations before income taxes** | **209.4** | 182.9 | (40.4) | (6.7) | 39.4 |
| Income tax (expense) recovery | **(83.8)** | (76.0) | 12.4 | 4.6 | (23.1) |
| Income (loss) from continuing operations before losses related to HSPP | **125.6** | 106.9 | (28.0) | (2.1) | 16.3 |
| Discontinued operations | **—** | (4.3) | (3.8) | (2.9) | (0.7) |
| Loss from and write-off of investment in HSPP, net of taxes | **—** | — | (171.9) | (27.9) | (72.5) |
| **Net income (loss)** | **$ 125.6** | $ 102.6 | $ (203.7) | $ (32.9) | $ (56.9) |
| **Per common share** (dollars) | | | | | |
| Before discontinued operations and losses related to HSPP | **$ 1.50** | $ 1.75 | $ (0.48) | $ (0.04) | $ 0.28 |
| Basic | **1.50** | 1.68 | (3.49) | (0.56) | (0.97) |
| Diluted | **1.36** | 1.66 | (3.49) | (0.56) | (0.97) |
| Dividends paid on common shares | **0.26** | — | 0.065 | 0.26 | 0.26 |
| Book value per share | **10.24** | 9.72 | 7.30 | 10.83 | 11.64 |
| **Assets and capitalization** (millions of dollars) | | | | | |
| Working capital | **$ 71.1** | $ (15.2) | $ 261.0 | $ 307.7 | $ 310.4 |
| Long-term investments | **74.0** | 69.8 | 62.2 | 62.1 | 83.4 |
| Property, plant, equipment and timber | **1,518.4** | 1,384.8 | 610.4 | 641.9 | 664.2 |
| Other assets and deferred charges | **116.8** | 93.1 | 99.3 | 66.6 | 45.2 |
| HSPP assets | **—** | — | — | 171.9 | 199.7 |
| Net assets | **$ 1,780.3** | $ 1,532.5 | $ 1,032.9 | $ 1,250.2 | $ 1,302.9 |
| Long-term liabilities | **$ 465.7** | $ 491.7 | $ 510.7 | $ 513.8 | $ 497.4 |
| Future income taxes | **363.9** | 139.0 | 96.2 | 104.4 | 126.6 |
| Common shareholders' equity | **950.7** | 901.8 | 426.0 | 632.0 | 678.9 |
| Total capitalization | **$ 1,780.3** | $ 1,532.5 | $ 1,032.9 | $ 1,250.2 | $ 1,302.9 |
| **Additions to property, plant, equipment and timber** (millions of dollars) | **$ 121.8** | $ 119.9 | $ 40.8 | $ 60.5 | $ 58.9 |

Prior years' figures have been restated to conform to the 2000 presentation.

| | 2000 | 1999 | 1998 | 1997 | 1996 |
|---|---|---|---|---|---|
| **Cash generated from (used in)** (millions of dollars) | | | | | |
| Operating activities | **$ 100.8** | $ 210.9 | $ 90.0 | $ 55.2 | $ 173.4 |
| Financing activities | | | | | |
| Long-term debt | **(50.7)** | 19.5 | (12.2) | (7.5) | 33.0 |
| Common shares | **0.1** | 239.5 | – | – | – |
| Dividends paid | **(21.1)** | – | (3.8) | (15.2) | (15.2) |
| Interest on convertible debentures, net of tax | **(4.7)** | – | – | – | – |
| Other | **(0.2)** | – | – | – | – |
| | **(76.6)** | 259.0 | (16.0) | (22.7) | 17.8 |
| Investing activities | | | | | |
| Property, plant, equipment and timber | **(121.8)** | (119.9) | (40.8) | (60.5) | (58.9) |
| Investment in subsidiaries and affiliates | **–** | (433.2) | – | – | – |
| Sales of investments and other | **2.4** | 13.5 | 8.4 | 23.2 | (4.1) |
| | **(119.4)** | (539.6) | (32.4) | (37.3) | (63.0) |
| Increase (decrease) in net cash | | | | | |
| From continuing operations | **(95.2)** | (69.7) | 41.6 | (4.8) | 128.2 |
| From discontinued operations | **–** | 13.8 | 3.9 | (1.4) | (5.8) |
| | **$ (95.2)** | $ (55.9) | $ 45.5 | $ (6.2) | $ 122.4 |
| **Financial statistics** | | | | | |
| Return on capital employed | **9.3%** | 12.3% | (10.9)% | 0.3% | (0.8)% |
| Return on common shareholders' equity | **13.6%** | 15.4% | (38.5)% | (5.0)% | (8.0)% |
| Ratio of current assets to current liabilities (a) | **1.1:1** | 1.0:1 | 1.7:1 | 2.1:1 | 2.0:1 |
| Ratio of total debt to shareholders' equity (a) | **44:56** | 45:55 | 56:44 | 59:41 | 44:56 |
| **Production statistics** | | | | | |
| Pulp – 000 mt | **980.1** | 521.8 | 453.2 | 428.3 | 407.4 |
| Kraft paper – 000 mt | **109.9** | 103.7 | 104.6 | 95.6 | 89.8 |
| Lumber – MMfbm | **2,235.3** | 1,423.8 | 1,378.3 | 1,425.6 | 1,479.8 |
| Plywood – 000 Msf 3/8" basis | **158.7** | – | – | – | – |
| Hardboard – 000 Msf 3/8" basis | **24.1** | 22.9 | 23.8 | 23.8 | 25.3 |
| Refined fibre – 000 mt | **38.5** | 33.9 | 29.4 | 36.0 | 29.5 |
| **Sales by product line** | | | | | |
| Log sales | **7%** | 10% | 9% | 6% | 5% |
| Pulp and kraft paper | **39** | 26 | 26 | 23 | 23 |
| Lumber – Canfor produced | **41** | 42 | 46 | 50 | 55 |
| Lumber – Other producers | **8** | 17 | 14 | 14 | 13 |
| Plywood | **2** | – | – | – | – |
| Miscellaneous | **3** | 5 | 5 | 7 | 4 |
| | **100%** | 100% | 100% | 100% | 100% |
| **Sales by market** | | | | | |
| Canada | **20%** | 22% | 21% | 17% | 16% |
| United States | **54** | 56 | 58 | 54 | 50 |
| Europe | **15** | 10 | 11 | 13 | 12 |
| Far East | **10** | 11 | 9 | 15 | 21 |
| Other | **1** | 1 | 1 | 1 | 1 |
| | **100%** | 100% | 100% | 100% | 100% |

(a) Ratios have been restated to exclude the assets, liabilities and debt of Howe Sound Pulp and Paper Limited.

## Directors

The names, principal occupations, municipalities of residence, and the periods during which they have been Directors of the Company are as follows:

**P.J.G. Bentley,** O.C. (1)(3)
Chairman of the Board,
Canfor Corporation
Vancouver, British Columbia
*Director since 1966*

**R.L. Cliff,** C.M., F.C.A. (1)(2)(3)(4)
Chairman of the Board,
BC Gas Inc.
West Vancouver, British Columbia
*Director since 1983*

**M.L. Cullen** (2)
Corporate Director;
Financial Consultant
Vancouver, British Columbia
*Director since 2000* (5)

**C.W. Daniel,** O.C. (3)(4)
Corporate Director;
Consultant
Toronto, Ontario
*Director since 1985*

**D.L. Emerson** (1)
President and Chief Executive Officer,
Canfor Corporation
Vancouver, British Columbia
*Director since 1998*

**M.E. Hurst** (4)
Educational Author
Vancouver, British Columbia
*Director since 1987*

**J.B. Jarvis** (1)(2)
Corporate Director
Vancouver, British Columbia
*Director since 1966*

**P.A. Lusztig** (2)(4)
Dean Emeritus,
University of British Columbia;
Commissioner (Federal),
B.C. Treaty Commission
Vancouver, British Columbia
*Director since 1983*

**E.P. Newell,** O.C. (4)
Chairman and Chief Executive Officer,
Syncrude Canada Inc.
Fort McMurray, Alberta
*Director since 1999*

**M.E.J. Phelps** (1)(3)(4)
Chairman and Chief Executive Officer,
Westcoast Energy Inc.
West Vancouver, British Columbia
*Director since 1990*

**R.T. Riley** (4)
Vice-President of L.B.G.
Capital, a Division
of National Bank Financial
Montreal, Quebec
*Director since 1987*

**C. Taylor** (2)
Corporate Director
Vancouver, British Columbia
*Director since 2000*

## Officers

The names, offices held, and municipalities of residence of the officers of the Company and the offices held by them are as follows:

**P.J.G. Bentley,** O.C.
Chairman
Vancouver, British Columbia

**D.L. Emerson**
President and Chief Executive Officer
Vancouver, British Columbia

**C.T. Hazelwood**
Executive Vice-President, Operations
Prince George, British Columbia

**A.G. Armstrong,** Q.C.
Senior Vice-President,
Corporate Development
Vancouver, British Columbia

**C.W. Reid**
Group Vice-President,
Finance and Chief Financial Officer
Surrey, British Columbia

**B.R. Hislop**
Group Vice-President, Wood Products
Vancouver, British Columbia

**R.A. Luoma**
Group Vice-President, Pulp
Prince George, British Columbia

**C.A. Arnesen**
Vice-President,
Pulp and Paper Marketing
West Vancouver, British Columbia

**K.O. Higginbotham**
Vice-President,
Forestry and Environment
Surrey, British Columbia

**J.K. Pau**
Vice-President and Treasurer
Vancouver, British Columbia

**R.L. Waldie**
Vice-President, Human Resources
Prince George, British Columbia

**J.R. Williams**
Vice-President,
Coastal Operations
Delta, British Columbia

**S. Yurkovich**
Vice-President, Corporate Affairs
Vancouver, British Columbia

**D.M. Calabrigo** (6)
General Counsel
and Corporate Secretary
Surrey, British Columbia

**R.B. Haslam**
Corporate Controller
West Vancouver, British Columbia

(1) Member of the Executive Committee, which acts generally on behalf of the Board of Directors between meetings.

(2) Member of the Audit Committee, which reviews the Company's financial statements, the scope and results of the external auditor's work, the adequacy of internal accounting and audit programs and compliance with accounting and reporting standards.

(3) Member of the Management Resources and Compensation Committee, which makes recommendations to the Board regarding the Company's pension plans and the remuneration of its Directors and senior officers and ensures management development and succession programs are in place.

(4) Member of the Corporate Governance Committee, which ensures that the Company through its Board of Directors sustains an effective approach to corporate governance.

(5) Effective October 25, 2000.

(6) Appointment effective January 3, 2001.

The term of office of each Director expires on the date of the next Annual General Meeting of the Company.

**Annual General Meeting**
Canfor's Annual General Meeting will be held at the Four Seasons Hotel, Arbutus Room, 791 West Georgia Street, Vancouver, B.C., on Friday, April 20, 2001 at 11:30 a.m.

**Transfer Agent and Registrar**
CIBC Mellon Trust Company
Vancouver, Calgary, Regina, Winnipeg, Toronto, Montreal and Halifax

**Stock Listing**
Toronto Stock Exchange
Symbol: CFP

**2000 Price Range of Common Shares**
High: $19.80 Low: $7.65

**Number of Common Shares Outstanding**
81,088,847 Shares at December 31, 2000

**Weighted Average Number of Common Shares Outstanding During 2000**
81,086,831

**Investor Contact**
Charles W. Reid
Group Vice-President, Finance and Chief Financial Officer
Telephone: (604) 661-5200
Fax: (604) 661-5484

**Auditors**
PricewaterhouseCoopers, Vancouver, B.C.

**Head Office**
3000-Four Bentall Centre
1055 Dunsmuir Street
Vancouver, B.C. V7X 1B5
Canfor also produces an Annual Information Form. To obtain this publication or more information about the company, please contact Canfor Corporation, Corporate Affairs.

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E-mail: info@canfor.ca
Web: www.canfor.com

**Corporate Profile**

Canfor Corporation is a leading Canadian integrated forest products company based in Vancouver, B.C. The company employs approximately 6,574 people - 5,760 directly, and 814 through affiliated companies.

Canfor has extensive woodlands operations and manufacturing facilities in British Columbia and Alberta, and a lumber re-manufacturing plant in Washington State. The company is a major producer and supplier of lumber and bleached kraft pulp. It also produces semi-bleached and unbleached kraft pulp, bleached and unbleached kraft paper, plywood, remanufactured lumber products, hardboard paneling and a range of specialized wood products, including baled fibre and fibre mat. Howe Sound Pulp and Paper Limited, owned equally by Canfor and Oji Paper Co., Ltd., produces bleached kraft pulp and newsprint.

Canfor's products are sold in global markets. The company has marketing offices in Canada, Europe and Japan.

Canfor Corporation is listed on the Toronto Exchange. The main operating company is Canadian Forest Products Ltd., from which the name Canfor is derived.

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**Canfor Corporation**

2900-1055 Dunsmuir Street, Post Office Box 49420, Bentall Postal Station, Vancouver, B.C. V7X 1B5